TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 AND THE APPALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

(99-19)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 10 and Related Bills

TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 AND THE APPALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

MARCH 20, 21, AND 26, 1985

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99TH CONGRESS
1ST SESSION

H. R. 10

To amend the Public Works and Economic Development Act of 1965 and the Appalachian Regional Development Act of 1965.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 3, 1985

Mr. OBERSTAR (for himself and Mr. CLINGER) introduced the following bill; which was referred jointly to the Committee on Public Works and Transportation and Banking, Finance and Urban Affairs

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A BILL

To amend the Public Works and Economic Development Act of 1965 and the Appalachian Regional Development Act of 1965.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—NATIONAL DEVELOPMENT INVESTMENT

SEC. 101. The Public Works and Economic Development Act of 1965 is amended to read as follows: "That this Act may be cited as the 'National Development Investment Act'.

"TITLE I—DEVELOPMENT INVESTMENT ASSISTANCE

"FINDINGS AND PURPOSES

"SEC. 101. (a) The Congress reaffirms the proposition that this Nation's economic strength is derived from the health of its regions, States, and local communities, both rural and urban, and that national interest dictates the maintenance and enhancement of economic vitality at the subnational level.

"(b) Congress also recognizes that economic conditions and political relationships change and that legislation must address these changes.

"(c) Congress further affirms that this legislation is designed to make government more efficient and responsive by supporting the following principles: leave to private initiative all the functions that citizens can perform privately; use the level of government closest to the community for all public functions it can handle; utilize cooperative intergovernmental agreements where appropriate to attain economical performance and popular approval; reserve national action for residual participation where State and local governments are not fully adequate and for the continuing responsibilities that only the National Government can undertake, such as monitoring the manner in which Federal funds are used in order to ensure the carrying out of the activities for which assistance is given.

"(d) The private sector remains the ultimate generator of employment and economic growth, but the public sector must reverse decades of infrastructure neglect as a necessary concomitant to private business stability and expansion. State and local governments now have a greater capacity than in previous decades to direct their own destiny, in part because of past Federal efforts; this new capacity must be incorporated in any new legislation at the national level. America's increased involvement in international trade has brought both challenges to some industries, and opportunities for others; these challenges and opportunities must be addressed. Capital shortages will for the foreseeable future curtail the Nation's ability to meet public and private investment needs; it is therefore imperative to marshal the resources of all levels of government and the private sector to create the critical mass of capital and other assets needed to generate growth. Finally, there is a continued need to assist in adjustment of change, which is the only permanent feature of our national, regional, and local economies.

"(e) In recognition of these constants and changes, Congress finds it an appropriate role for the Federal Government to foster the coordination of investments between the public and private sectors and to promote long-term economic development partnerships at the State and local levels, in both rural and urban areas.

"(f) The purposes of this Act are therefore—

"(1) to establish a framework within which Federal, State, and local governments, and the private sectors, in urban and rural areas, can combine their resources to achieve economic development in all parts of the Nation;

"(2) to help create a strong investment climate which promotes the expansion and retention of job opportunities for local residents; and removes economic barriers in local areas which impede the free market forces;

"(3) to build, rehabilitate, and repair public infrastructure where it is inadequate to support and encourage private investment in the area;

"(4) to recognize and rely upon improved State and local governments' capacity to direct their own destinies;

"(5) to link public and private funds to foster coordination of resources between these sectors, in order to leverage the maximum investment in the long-term economic vitality of all areas;

"(6) to facilitate local and regional economic adjustment and economic development diversification in a changing national economy, by assisting State and local efforts to foresee adverse economic changes; to prevent their consequences where possible; to respond as necessary; and to achieve economic self-sufficiency;

"(7) to assist in relieving capital shortages and fill local credit gaps which impede private business start-ups and expansion;

"(8) to assist communities and industries to respond to the opportunities and challenges of a world increasingly knit together by international trade; and

"(9) to enhance the economic development of Indian reservations, pursuant to the Federal Government's trust responsibilities to Indian tribes.

"ELIGIBLE ACTIVITIES

"SEC. 102. (a) Upon application of a State, economic development district, unit of local government, Indian tribe, or private or public nonprofit organization established for economic development purposes which meets the eligibility criteria established by this Act, the Secretary is authorized to make a grant for a portion of the cost, as provided in section 108, of projects submitted in a development investment strategy. Development investment assistance may be for the following purposes—

"(1) the construction, repair, rehabilitation and improvement of public facilities, including the acquisition of land and other public works improvements to encourage and support private development;

"(2) revolving loan funds to promote the establishment and growth of small businesses and to retain indigenous firms and entrepreneurs which contribute to the creation, retention, and expansion of private sector jobs;

"(3) to conduct feasibility studies, site preparation, and other technical assistance to prepare for development and to enhance the investment climate; and

"(4) development activities which address and prevent economic dislocation and facilitate economic adjustment including assistance to promote qualified employee ownership organizations and which contribute to economic diversification and long-term economic vitality of the area.

"(b) The Secretary shall provide technical assistance and conduct feasibility studies to assist any person to establish a qualified employee ownership organization for purposes of subsection (a)(4).

"APPLICANTS

"Sec. 103. (a) A State may apply for a grant under this title for an eligible project within any unit of local government within the State, other than a unit of local government with a population of fifty thousand or more, if such unit meets the requirements of section 105 and is not within the boundaries of an economic development district.

"(b) A unit of local government within a State, other than a unit of local government with a population of fifty thousand or more, which meets the requirements of section 105 and is not within the boundaries of an economic development district may apply for a grant under this title for an eligible project within such unit, but only if such unit consults the State in the preparation of the grant application.

"(c) An economic development district may apply for a grant under this title for an eligible project within any unit of local government within such district if such unit meets the requirements of section 105.

"(d) A unit of local government within an economic development district may apply for a grant under this title for an eligible project within such unit if such unit meets the requirements of section 105, but only if such unit consults the economic development district in the preparation of the grant application.

"(e) An Indian tribe may apply for a grant under this title.

"(f) A unit of local government with a population of fifty thousand or more which meets the requirements of section 105 and is located outside an economic development district may apply for a grant under this title for an eligible project within such unit and a private or public nonprofit development organization representing an area within such unit may apply for a grant under this title for an eligible project within such area, but only if such grant application is approved by such unit before its submission.

"(g) In the case of a unit of local government which has a population of fifty thousand or more and does not meet the requirements of section 105—

"(1) such unit may, for an area which meet the requirements of section 105 and is within such unit, apply for a grant under this title for an eligible project within such area, but, in the case of a unit of local government which is located within an economic development district, only if such unit consults the economic development district in the preparation of the grant application; and

"(2) a private or public nonprofit development organization representing an area which meets the requirements of section 105 and is within such unit may apply for a grant under this title for an eligible project within such area, but only if such grant application is approved by such unit before its submission.

"APPLICATION FOR GRANT

"SEC. 104. (a) An application for a grant under this title shall include, but need not be limited to—

"(1) a certification that the area for which the grant is to be made meets the distress requirements set forth in section 105;

"(2) a certification relative to the performance of any responsibilities which the Secretary has agreed to accept under section 306; and

"(3) a development investment strategy prepared in accordance with section 106.

"(b) In approving applications for grants under this title, the Secretary shall consider the purposes of this Act as set forth in section 101 of this Act, including but not limited to the following:

"(1) the severity of distress in the area for which the grant is to be made;

"(2) the ratio of private sector investments committed in such area to the amount of the grant applied for;

"(3) the extent to which the appropriate State and local governments have undertaken or agree to undertake other related actions to encourage economic development and the expansion of employment opportunities;

"(4) the effectiveness of the development investment strategy and the degree to which the proposed project contributes to its implementation (including the strategy's relationship to economic problems identified in the strategy), expands employment opportunities in the existing labor market, provides incentives to retain indigenous private businesses, expands or improves public facilities, and encourages private investment;

"(5) the extent to which the strategy and activities are consistent with State and local goals and contribute to long-term economic growth and private sector employment opportunities and establish an overall strengthened economic and business environment which will be self-sustaining; and

"(6) the extent to which assistance under section 102(a)(4) will assist a qualified employee ownership organization to obtain majority ownership of a business.

"(c) No assistance may be provided under this title for projects intended to facilitate the relocation of industrial or commercial plants or facilities from one area to another, unless the Secretary finds that such relocation would not significantly and adversely affect unemployment in, or the economic base of, the area from which the industrial or commercial plant or facility would be leaving.

"DISTRESS REQUIREMENTS

"SEC. 105. (a) In order to be eligible for a grant under this title, the applicant must certify that any activity or project to be funded under such grant will be carried out or located in an area which meets any one of the following criteria:

"(1) the area has a per capita income of 80 percent or less of the national average;

"(2) the area has an unemployment rate 1 percent above the national average percentage for the most recent twenty-four-month period for which statistics are available; or

"(3) the area has experienced or is about to experience a sudden economic dislocation resulting in job loss that is significant both in terms of the number of jobs eliminated and the effect upon the employment rate of the area.

"(b) Documentation of distress shall be supported by Federal data, when available, and in other cases by data available through the State government. Such documentation shall be accepted by the Secretary unless it is determined to be inaccurate. The most recent statistics available must be used.

"DEVELOPMENT INVESTMENT STRATEGY

"SEC. 106. (a) Except as provided in subsection (b), an applicant for a grant under this title shall prepare a development investment strategy for the area for which the grant is sought which—

"(1) identifies the economic development problems sought to be addressed by the grant;

"(2) identifies past, present, and projected future economic development investments in such area and public and private participants and sources of funding for such investments;

"(3) identifies the extent to which the development investment strategy takes into account—

"(A) availability of developable land and space in the area;

"(B) public works, public service, and development facilities in the area;

"(C) availability of low-cost capital;

"(D) tax policy on investments in the area;

"(E) level of skill of the labor force; and

"(F) ability of State and units of local government to provide financial assistance in the management and implementation of the strategy;

"(4) sets forth a strategy for addressing the economic problems identified in paragraph (1) and discusses the manner in which the strategy will solve such problems;

"(5) provides a general discussion of the projects necessary to implement the strategy, an estimate and analysis of the costs and anticipated benefits of implementing the strategy, and an estimate of the timetables for completion of such projects;

"(6) provides a summary of public and private resources which are expected to be available for such projects; and

"(7) provides a comprehensive plan to demonstrate a representative percentage of participation by small business concerns owned and controlled by socially and economically disadvantaged individuals, as defined by section 8(d) of the Small Business Act (15 U.S.C. 637(d)) and relevant subcontracting regulations promulgated pursuant thereto, in all phases of the development and implementation of the development investment strategy.

"(b) In any case in which a unit of local government is the eligible applicant under subsection (b) or (d) of section 103, the unit of local government shall consult the State or economic development district, respectively, in the preparation of a development investment strategy. In any case in which a private or public nonprofit development organization within a unit of local government is the eligible applicant under subsection (g) of section 103, the unit of local government shall approve the organization's development investment strategy.

"PRIVATE SECTOR INCENTIVES

"SEC. 107. (a) To stimulate small business development and to promote internal economic growth which contributes to an improved local tax base and the creation of permanent employment opportunities, the Secretary is authorized to make grants to an applicant and to a State to establish a revolving loan fund to be used for making loans or guaranteeing loans to small businesses for initial or working capital, or the purchase, rehabilitation or expansion of facilities or equipment. In addition, loans or guarantees may be made to businesses where a relatively small amount of capital is needed to complete financing necessary to retain the business in the area. A grant made to a State under this section shall be made on the condition that the revolving loan fund established by such State shall be available only in areas in such State which meet the requirements of section 105.

"(b) No grant for the establishment or recapitalization of a revolving loan fund shall be made for more than $1,000,000.

"(c) No loan or guarantee shall be made from a revolving loan fund which has received a grant under this title unless the financial assistance applied for is not otherwise available from private lenders on terms which in the opinion of the administrator of the revolving loan fund will permit the accomplishment of the project.

"(d) Any applicant for a grant for a revolving loan fund shall give assurances that amounts of any loan which are repaid to the revolving loan fund will be available only for the purposes set forth in subsection (a).

"(e) No loan or guarantee may be made from a revolving loan fund which has received a grant under this title unless the applicant for such loan or guarantee provides reasonable assurance of repayment of the loan.

"(f) The Secretary may make additional grants for a portion of the cost, as provided in section 108(b), of recapitalization of a revolving loan fund, taking into consideration the past performance of such fund.

"(g) The grantee of any grant for a revolving loan fund shall administer the fund.

"FEDERAL SHARE

"SEC. 108. (a) The amount of any grant for a project for any eligible activity described in paragraph (1) of section 102 shall be that amount which when added to amounts available from all other sources is sufficient to complete such project, except that in no event shall the amount of any grant under this title exceed 50 percent of such cost of completing the project as determined at the time of the grant application. No additional funds shall be granted or otherwise made available under this Act for any such project for which a grant has been made under this Act.

"(b) The amount of any grant for the establishment of a revolving loan fund under paragraph (2) of section 102(a) shall not exceed an amount which is equal to the amount of funds available from all other sources for the establishment of such revolving loan fund. The amount of any additional grant for the recapitalization of a revolving loan fund previously established with a grant under this Act shall not exceed an amount which is equal to one-third of the amount of funds available from all other sources for such recapitalization.

"(c) In the case of a grant to an Indian tribe, the Secretary may reduce or waive the non-Federal share.

"LIMITATIONS

"SEC. 109. (a) Except for expenditures to Indian tribes, not more than 15 percent of the appropriations made pursuant to this title may be expended in any one State.

"(b) The Secretary shall not obligate more than $2,000,000 in any fiscal year to any person (including any State or local government or public organization) for grants under this title, other than grants which promote qualified employee ownership organizations.

"OBLIGATION OF FUNDS

"SEC. 110. (a) Not later than May 31 of each fiscal year, the Secretary shall obligate for grants under this title not less than 50 percent and not more than 60 percent of the funds appropriated for such fiscal year pursuant to this title.

"(b) Not later than September 30 of each fiscal year, the Secretary shall obligate for grants under this title the remaining funds appropriated for such fiscal year pursuant to this title.

"AUTHORIZATION OF APPROPRIATIONS

"SEC. 111. There is authorized to be appropriated to carry out this title, to be available until expended, $425,000,000 per fiscal year for each of the fiscal years ending September 30, 1986, September 30, 1987, and September 30, 1988. Not more than 25 percent of the amount appropriated pursuant to this section for any fiscal year shall be expended to carry out section 107.

"TITLE II—INVESTMENT STRATEGY, PLANNING, EVALUATION, AND DEMONSTRATION

"INVESTMENT STRATEGY AND PLANNING

"SEC. 201. (a)(1) The Secretary is authorized to make grants for economic development planning, including the preparation of development investment strategies under section 106 and the payment of administrative expenses, to States, economic development districts, Indian tribes, counties which meet the distress requirements of section 105 and which are located outside of economic development districts, and those other units of local government having populations of fifty thousand or more which meet such distress requirements and which are located outside of economic development districts. Such planning shall be a part of a comprehensive planning process and shall be a continuous process involving public officials and private citizens in analyzing local economies, defining development goals, determining project opportunities, and formulating and implementing a development program. The Secretary is authorized to make grants for preparation of a development investment strategy under section 106 to any unit of local government having a population of 100,000 or more which meets the distress requirements of section 105 on condition that such unit consult with any economic development district of which it is a part in the preparation of such development investment strategy.

"(2) Any State economic development plan prepared with assistance under this section shall be prepared by the State with the active participation of units of local government and economic development districts located in whole or in part within such State and shall set goals for economic development within such State. Each State receiving assistance under this subsection shall submit to the Secretary an annual report on the planning process assisted under this section.

"(3) Any economic development planning by an economic development district or a unit of local government for which a grant is made under this section shall be consistent with the State economic development plan for the State in which such district or unit is located.

"(b) Grants under this section shall be used, to the maximum extent possible, to provide logical coordination of investment for community facilities, economic development, manpower training, and transportation services.

"(c) Any applicant for assistance under this section is encouraged to provide project planning, financial analysis, marketing, management, feasibility studies, and other technical and financial assistance to communities and neighborhoods within its boundaries.

"EVALUATION AND DEMONSTRATION

"SEC. 202. (a) The Secretary is authorized to conduct a program of evaluation of Federal, State, and local development investment efforts in order to—

"(1) assist in determining the causes of unemployment, underemployment, severe economic adjustment problems, and chronic distress in areas and regions of the United States; and

"(2) assist in formulating, implementing, or improving programs at the National, State, or local levels which are designed to increase employment in private firms, assist depressed industry sectors, or otherwise promote economic development or adjustment.

"(b) The Secretary is authorized to conduct any demonstration program to test the feasibility of new ways to increase productivity and growth and the understanding of regional and local economies, to foster innovative technology and research in the field of economic development, to match the labor force with projected labor markets, to improve United States competitiveness, or to encourage economic diversity and regional balance.

"(c) Programs authorized under subsections (a) and (b) of this section may be carried out by the Secretary acting through the staff of the Department of Commerce, in cooperation with or by the provision of funding to other departments or agencies of the Federal Government, or by contract.

"(d) The Secretary is authorized to make grants to colleges, universities, and other nonprofit educational and research organizations to establish and support ongoing programs which provide to businesses and units of local government management and technical assistance for the purposes of promoting productivity, economic development, and employment opportunity.

"(e)(1) The Secretary, in consultation with the Secretary of the Treasury and such other departments and agencies as the Secretary considers appropriate, shall conduct a study—

"(A) regarding the financing needs for the construction, repair, and rehabilitation of public facilities in order to improve the condition of such facilities so that such facilities can adequately meet present levels of service;

"(B) regarding the ability of State and local governments, including special public authorities which own or operate public facilities, to meet such financing needs;

"(C) to determine—

"(i) the present level of financing for public facilities;

"(ii) the types of financing used to meet such financing needs;

"(iii) those obstacles which affect the ability of State and local governments to meet such financing needs;

"(iv) the access, or lack of access, of State and local governments to the private credit market;

"(v) the ability of the private credit market to absorb such financing needs on a taxable or tax-exempt basis;

"(vi) the extent to which debt limitations affect the ability of State and local governments to meet such financing needs, including a survey of such debt limitation factors with respect to each State; and

"(vii) the ability of State and local governments to increase taxes, or impose or increase user fees, in order to meet such financing needs; and

"(D) regarding such other factors as the Secretary deems appropriate in order to assist the Congress in determining the total financing needs necessary to improve such public facilities.

"(2)(A) The Secretary shall transmit to each House of the Congress an interim report not later than June 30, 1986, and shall transmit a final report to each House of the Congress not later than December 31, 1986.

"(B) The final report shall contain a detailed statement of the findings and conclusions of the Secretary, together with the Secretary's recommendations for such legislative or administrative actions as the Secretary considers appropriate.

"(3) For purposes of this subsection, the term 'public facilities' shall only include the following: non-Federal-aid roads and bridges; water supply and distribution systems; sewer systems; solid waste disposal systems; and transportation facilities which represent an element of local, State, area, or regional economic development, such as airports, ports, waterways, and docks.

"FEDERAL SHARE

"SEC. 203. The amount of any grant under section 201 shall not exceed 75 percent of the cost of economic development planning or of the preparation of a development investment strategy. The amount of any grant under section 202(d) shall not exceed 75 percent of the cost of establishing and supporting the ongoing management and technical assistance program. In determining the amount of the non-Federal share of costs under this section, the Secretary shall give due consideration to all contributions both in cash and in kind, fairly evaluated, including but not limited to space, equipment, and services. In the case of a grant to an Indian tribe under section 201, the Secretary may reduce or waive the non-Federal share.

"OBLIGATION OF FUNDS

"SEC. 204. Not later than December 31 of each fiscal year, the Secretary shall obligate for grants under section 201, 90 percent of the funds appropriated for such fiscal year pursuant to this title (other than those funds available for purposes of section 202). The remainder of such funds shall be obligated during such fiscal year only for making grants under section 201 in areas meeting the criteria set forth in section 105(a)(3).

"AUTHORIZATION OF APPROPRIATIONS

"SEC. 205. (a) There is authorized to be appropriated to carry out this title, to be available until expended, $75,000,000 per fiscal year for each of the fiscal years ending September 30, 1986, September 30, 1987, and September 30, 1988.

"(b) Of sums authorized to be appropriated under subsection (a) of this section—

"(1) not to exceed $13,000,000 in the fiscal year ending September 30, 1986, and not to exceed $15,000,000 in each of the fiscal years ending September 30, 1987, and September 30, 1988, shall be available for purposes of subsections (a) through (d) of section 202; and

"(2) not to exceed $2,000,000 in the fiscal year ending September 30, 1986, shall be available until expended for purposes of section 202(e).

"TITLE III—ADMINISTRATION

"DEFINITIONS

"SEC. 301. For purposes of this Act—

"(1) the term 'economic development district' means—

"(A) an economic development district designated on or before January 1, 1985, under section

403(a)(1) of the Public Works and Economic Development Act of 1965; and

"(B) any district within a State which is designated by the Secretary, which district is of sufficient size or population and contains sufficient resources to foster economic development on a scale involving more than one county and does not contain within its boundaries any part of another economic development district designated under subparagraph (A) or under this subparagraph;

"(2) the term 'qualified employee ownership organizations' include—

"(A) a qualified employee trust as defined in section 3(c)(2) of the Small Business Act, except that—

"(i) such term shall not be limited to plans maintained by small business concerns or to loans guaranteed under such Act;

"(ii) in the case of any form of financial assistance, the principles of section 3(c)(2)(B) of such Act shall apply under regulations prescribed by the Secretary; and

"(iii) there shall be periodic reviews of the role, in the management of the concern involved, of employees to whose account stock is allocated; and

"(B) any business organized on a cooperative basis;

"(3) the term 'Indian tribe' means the governing body of a tribe, an Indian authority or tribal organization or entity, an Alaskan Native village, or any Indian group which is recognized as an Indian tribe by the Secretary of the Interior, except that the term 'Indian tribe' shall also include those bodies, authorities, organizations, entities, or groups not recognized by the Secretary of the Interior, if—

"(A) such body, authority, organization, entity, or group is recognized, as of May 5, 1985, as a tribe or other similar appropriate entity by the State in which it is located and such State, as of May 5, 1985, holds land in trust on behalf of such tribe or other similar appropriate entity; and

"(B) the project or assistance involved will be located on such land held in trust or on tribal land;

"(4) the term 'unit of local government' means any city, county, town, parish, village, or other general purpose political subdivision of a State;

"(5) the term 'small business' means a business that is independently owned and operated, is not dominant in its field of operations, and meets such other criteria as the Secretary, after consultation with the Administrator of the Small Business Administration, may by regulation establish, including but not limited to, numbers of employees and dollar volume of business by industrial classes;

"(6) the term 'Secretary' means the Secretary of Commerce; and

"(7) the term 'State' means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Marianas.

"APPOINTMENT OF ASSISTANT SECRETARY

"SEC. 302. The Secretary shall administer this Act with the assistance of an Assistant Secretary of Commerce, created by section 601 of the Public Works and Economic Development Act of 1965. Such Assistant Secretary shall perform such functions as the Secretary may prescribe.

"CONSULTATION WITH OTHER PERSONS AND AGENCIES

"SEC. 303. (a) The Secretary is authorized from time to time to call together and confer with any persons, including representatives of labor, management, agriculture, and government, who can assist in meeting the problems of area and regional unemployment or underemployment.

"(b) The Secretary may make provisions for such consultation with interested departments and agencies as he may deem appropriate in the performance of the functions vested in him by this Act.

"ADMINISTRATION OF ASSISTANCE

"SEC. 304. No grant shall be approved under this Act unless the Secretary is satisfied that the project for which Federal assistance is granted will be properly and efficiently administered, operated, and maintained.

"POWERS OF THE SECRETARY

"SEC. 305. In performing his duties under this Act, the Secretary is authorized to—

"(1) adopt, alter, and use a seal, which shall be judicially noticed;

"(2) hold such hearings, sit and act at such times and places, and take such testimony, as he may deem advisable;

"(3) request directly from any executive department, bureau, agency, board, commission, office, independent establishment, or instrumentality information, suggestions, estimates, and statistics needed to carry out the purposes of this Act; and each department, bureau, agency, board, commission, office, establishment or instrumentality is authorized to furnish such information, suggestions, estimates, and statistics directly to the Secretary;

"(4) acquire, in any lawful manner, any property (real, personal, or mixed, tangible or intangible), whenever deemed necessary or appropriate to the conduct of the activities authorized by this Act;

"(5) procure by contract the temporary or intermittent services of experts and consultants or organizations therefor as authorized by section 3109(b) of title 5, United States Code, compensate individuals so employed at rates not in excess of $100 per diem, including travel time, and allow them, while away from their homes or regular places of business, travel expenses (including per diem in lieu of subsistence) in accordance with section 5703 of title 5, United States Code, for persons in the Government service employed intermittently, while so employed;

"(6) sue and be sued in any court of record of a State having general jurisdiction or in any United States district court, and jurisdiction is conferred upon such district court to determine such controversies without regard to the amount in controversy; but no attachment, injunction, garnishment, or other similar process, mesne, or final, shall be issued against the

Secretary or his property. Nothing herein shall be construed to except the activities under this Act from the application of sections 517, 547, and 2679 of title 28, United States Code; and

"(7) establish such rules, regulations, and procedures as he may deem appropriate in carrying out the provisions of this Act.

"CERTIFICATION

"SEC. 306. (a) The Secretary may discharge any of his responsibilities relative to a project for which a grant may be made under title I of this Act by accepting a certification by the applicant of the applicant's performance of such responsibilities. The Secretary shall promulgate such guidelines and regulations as may be necessary to carry out this section.

"(b) Acceptance by the Secretary of an applicant's certification under this section may be rescinded by the Secretary at any time if, in his opinion, it is necessary to do so.

"SAVINGS PROVISIONS

"SEC. 307. (a) No suit, action, or other proceedings lawfully commenced by or against the Secretary or Assistant Secretary or any other officer in his official capacity or in relation to the discharge of his official duties under the Public Works and Economic Development Act of 1965, shall abate by reason of the taking effect of the provisions of this Act, but the court may, on motion or supplemental petition filed at any time within twelve months after such taking effect, showing a necessity for the survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, allow the same to be maintained by or against the Secretary or Assistant Secretary or such other officer of the Department of Commerce as may be appropriate.

"(b) Except as may be otherwise expressly provided in this Act, all powers and authorities conferred by this Act shall be cumulative and additional to and not in derogation of any powers and authorities otherwise existing. All rules, regulations, orders, authorizations, delegations, or other actions duly issued, made, or taken by or pursuant to applicable law, prior to the effective date of this Act, by any agency, officer, or office pertaining to any functions, powers, and duties under the Public Works and Economic Development Act of 1965 shall continue in full force and effect after the effective date of this Act until modified or rescinded by the Secretary or such other officer of the Department of Commerce as, in accordance with applicable law, may be appropriate.

"ANNUAL REPORT

"SEC. 308. The Secretary shall make a comprehensive and detailed annual report to the Congress of his operations under this Act for each fiscal year beginning with the fiscal year ending September 30, 1986. Such report shall be printed and shall be transmitted to the Congress not later than

February 1 of the year following the fiscal year with respect to which such report is made.

"PREVAILING RATE OF WAGE

"SEC. 309. All laborers and mechanics employed by contractors or subcontractors on projects assisted by the Secretary under this Act shall be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended (40 U.S.C. 276a–276a–5). The Secretary shall not extend any financial assistance under this Act for such project without first obtaining adequate assurance that these labor standards will be maintained upon the construction work. The Secretary of Labor shall have, with respect to the labor standards specified in this provision, the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267; 5 U.S.C. App.), and section 2 of the Act of June 13, 1934, as amended (48 Stat. 948; 40 U.S.C. 276c).

"RECORD OF APPLICATIONS

"SEC. 310. The Secretary shall maintain as a permanent part of the records of the Department of Commerce a list of applications approved for a grant under this Act, which shall be kept available for public inspection during the regular business hours of the Department of Commerce. The following information shall be posted in such list as soon as each application is approved: (1) the name of the applicant, (2) the amount and duration of the grant for which application is made, and (3) the purposes for which the proceeds of the grant are to be used.

"RECORDS AND AUDIT

"SEC. 311. (a)(1) Each recipient of a grant under this Act shall keep such records as the Secretary shall prescribe, including records which (A) fully disclose the amount and the disposition by such recipient of the proceeds of such grant, the total cost of the project or undertaking in connection with which such grant is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources, and (B) review the efficiency, economy, and effectiveness of the project carried out under this Act.

"(2) Not later than ten days after January 1 and July 1 of each year, each recipient shall transmit a report to the Secretary containing all information prescribed under paragraph (1) which relates to all activities carried out during the preceding period relating to grants made to it under this Act. Each report submitted in January of each year shall include an audited statement of all funds spent on the project or undertaking during the preceding fiscal year prepared by an independent certified public accountant in accordance with the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the Comptroller General of the United States.

"(b) For the purpose of reviewing the efficiency, economy, and effectiveness of programs carried out under the provisions of the Act, including audit and examination, the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of any recipient, subrecipient, contractor, or subcontractor that are pertinent to assistance received under this Act.

"AUTHORIZATION OF APPROPRIATIONS

"SEC. 312. There is hereby authorized to be appropriated for salaries and administrative expenses to carry out the provisions of this Act $30,000,000 for the fiscal year ending September 30, 1986, $35,000,000 for the fiscal year ending September 30, 1987, and $40,000,000 for the fiscal year ending September 30, 1988. Appropriations authorized under this Act shall remain available until expended unless otherwise provided by appropriations Acts. Any contract entered into pursuant to this Act shall be effective only to such extent and in such amounts as may be provided in advance in an appropriation Act.".

TITLE II—APPALACHIAN REGIONAL DEVELOPMENT

SEC. 201. This title may be cited as the "Appalachian Regional Development Act Amendments of 1985".

SEC. 202. The sixth sentence of subsection (a) of section 2 of the Appalachian Regional Development Act of 1965 is amended by striking out the period at the end thereof and inserting in lieu thereof the following: "and in severely distressed and underdeveloped counties lacking resources for basic services.".

SEC. 203. Subsection (b) of section 105 of the Appalachian Regional Development Act of 1965 is amended by striking out the period at the end thereof and inserting in lieu thereof the following: ", and not to exceed $5,800,000 for the two-fiscal-year period ending September 30, 1987 (of such amount not to exceed $900,000 shall be available for expenses of the Federal cochairman, his alternate and his staff), and not to exceed $5,800,000 for the two-fiscal-year period ending September 30, 1989 (of such amount not to exceed $900,000 shall be available for expenses of the Federal cochairman, his alternate, and his staff), and not to exceed $2,900,000 for the fiscal year ending September 30, 1990 (of such amount not to exceed $450,000 shall be available for expenses of the Federal cochairman, his alternate, and his staff).".

SEC. 204. Paragraph (7) of section 106 of the Appalachian Regional Development Act of 1965 is amended by striking out "1982" and inserting in lieu thereof "1990".

SEC. 205. (a) Subsection (g) of section 201 of the Appalachian Regional Development Act of 1965 is amended by striking out the period at the end thereof and inserting in lieu thereof a semicolon and the following: "$234,000,000 for fiscal year 1986; $250,000,000 for fiscal year 1987; $270,000,000 for fiscal year 1988; $289,000,000 for fiscal year 1989; $312,000,000 for fiscal year 1990; $337,000,000 for fiscal year 1991; and $364,000,000 for fiscal year 1992.".

(b) Subsection (h)(1) of section 201 of the Appalachian Regional Development Act of 1965 is amended by striking out "70 per centum" and inserting in lieu thereof "80 per centum". The amendment made by the preceding sentence shall apply to projects approved after March 31, 1979.

SEC. 206. Subsection (c) of section 214 of the Appalachian Regional Development Act of 1965 is amended by striking out "December 31, 1980" and inserting in lieu thereof "October 1, 1990" in the first sentence, and by inserting "authorized by title 23, United States Code" after "road construction" in the second sentence.

SEC. 207. Part B of title II of the Appalachian Regional Development Act of 1965 is amended by adding at the end thereof the following new section:

"ECONOMIC ENHANCEMENT GRANTS

"SEC. 215. The Commission is authorized to make grants to States and public and nonprofit entities for projects, approved pursuant to section 303 of this Act, which will—

"(1) assist in the creation or retention of permanent private sector jobs, the upgrading of the region's manpower, or the attraction of private investment;

"(2) provide special assistance to severely distressed and underdeveloped counties which lack financial resources for improving basic services;

"(3) assist in achieving the goal of making primary health care accessible in the region; or

"(4) otherwise serve the purposes of this Act.".

SEC. 208. Clause (2) of subsection (b) of section 224 of the Appalachian Regional Development Act of 1965 is amended to read as follows: "(2) to enable plant subcontractors to undertake work theretofore performed in another area by other subcontractors or contractors;".

SEC. 209. Section 224 of the Appalachian Regional Development Act of 1965 is amended by adding at the end thereof the following new subsection:

"(d) Notwithstanding any other provision of this Act, grants with funds authorized under this Act shall not, after October 1, 1985, exceed 50 per centum of the costs of any project approved under this Act (except projects under section 201); but such grants may increase the Federal contribution to any project, notwithstanding limitations in other Federal laws, to such percentage as the Commission determines within the limitations in this Act.".

SEC. 210. Section 401 of the Appalachian Regional Development Act of 1965 is amended by adding at the end thereof the following: "In addition to the appropriations authorized in section 105 for administrative expenses, and in section 201(g) for the Appalachian development highway system and local access roads, there is authorized to be appropriated to the President, to be available until expended, to carry out this Act, $166,000,000 for the two-fiscal-year period ending September 30, 1987; $158,000,000 for the two-fiscal-year period ending September 30, 1989; and $75,000,000 for the fiscal year period ending September 30, 1990.".

SEC. 211. Section 405 of the Appalachian Regional Development Act of 1965 is amended by striking out "1982" and inserting in lieu thereof "1990".

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TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 AND THE APPALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

WEDNESDAY, MARCH 20, 1985

House of Representatives,
Subcommittee on Economic Development,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 2253, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

Mr. **Nowak**. The Subcommittee on Economic Development will come to order.

The Chair would like to thank all of the witnesses who have taken time out of their busy schedules to come forward to testify today.

I have a brief statement that I ask unanimous consent to enter into the record.

[Mr. Nowak's statement follows:]

OPENING STATEMENT OF HON. HENRY J. NOWAK, CHAIRMAN SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

MARCH 20, 1985

The Subcommittee on Economic Development will come to order. The Chair would like to thank all of the witnesses who have taken time out of their busy schedules to come forward to testify.

This morning the subcommittee begins three days of hearings on proposals that would revise and extend the programs authorized by the Public Works and Economic Development Act administered by the Economic Development Administration, and the Appalachian Regional Development Act carried out by the Appalachian Regional Commission.

There are many areas in our country suffering both cyclical and structural unemployment: unemployment that responds to or is the result of cyclical swings in the economy, and unemployment that is attributed to certain sectors of the economy like steel and autos and mining. Unemployment resulting from the downturn in farming has far reaching effects on the overall economy.

Despite the Administration's position, there is a real need for a Federal presence in the economic development process. Often, the Federal government, itself, creates adverse economic conditions for certain areas of our country and sectors of the economy by implementing changes in, for example, trade, fiscal, and agriculture policies.

Areas which do not benefit from these changes often undergo economic dislocation and increased unemployment rates. Equity dictates that the Federal government assume responsibility in helping these areas counter the negative economic impact occasioned by these policies.

The role chosen by the Federal government in the form of the Economic Development Administration and the Appalachian Regional Commission has proven successful in stimulating job creation by the private sector. This fact was brought out clearly in 1981 in hearings by the Subcommittee on Economic Development to obtain an overview and assessment of the programs. For example, our findings revealed that the $4.7 billion invested in EDA over its 15-year existence has created or saved 1.4 million jobs in the private sector, and leveraged $9 billion in private investment. It returns annually to the Treasury, State and local governments $6.5 billion -- more than its entire 15-year appropriation. This seed money, invested in communities and businesses located outside the economic mainstream, has strengthened the overall economy.

My experience in my own district has borne out the money-making aspect of these programs. In recent years, EDA has provided assistance to the Erie County (N.Y.) Industrial Development Agency, which has used these funds for a variety of purposes including establishing a revolving loan fund which was particularly helpful to small, growth-oriented firms lacking access to easy sources of investment capital.

Thus, it has been my experience that EDA has worked well to help stimulate private-sector growth and development. I know many of you will come forward today to talk about similar experiences with ARC. I support this legislation which would continue EDA and provide for a finish-up program for ARC, as invaluable elements in the long-range revitalization of our national economy.

All of these factors were highlighted in hearings that this subcommittee held throughout the United States, beginning in 1981, and continuing throughout 1982, chaired by my colleague and former Subcommittee Chairman, the Honorable James L. Oberstar. These hearings looked at the effects on various sectors of the economy of dislocations that were growing severe and resulting in far-reaching unemployment.

As a result of our findings in these hearings, and an in-depth review of the Public Works and Economic Development Act of 1965, H.R. 6100 was introduced in the 97th Congress, and then reintroduced in the 98th Congress as H.R. 10.

The bills reported to the House resulted in a favorable and bipartisan response, evidenced by their overwhelming passage by a 3-to-1 margin.

The provisions of the legislation are well known. We have had extensive public discussion of the National Development Investment Act and on the finish-up program for Appalachia. We have had considerable comment by professionals in the field of economic development on this legislation.

There is general agreement among practitioners of the art of economic development that this legislation, if in effect today, would be an enormous help particularly to distressed areas. Those areas that suffered extensive distress before the last recession and whose problems were compounded by it.

We have retained the original goals and concepts in this legislation. We remain open for comments and suggestions and are willing to make further changes if appropriate.

So we begin again the process of reviewing economic development legislation as provided by H.R. 10, "The National Development Investment Act." As we do so, I want to make clear one very important thing. This is not a quick fix, short-term jobs bill. This is legislation whose purpose is to generate permanent jobs, private sector jobs, in those areas of the country which have experienced extraordinary distress.

The purpose of EDA and ARC has been, and will continue to be, the creation of long-term, private sector jobs as the best way to really cure some of the ills of the economy. We recognize that, even as we apparently are on the threshold of a recovery, there are some areas that will always be left behind. There are going to be areas that need some additional help in order to participate in development and growth, and that has been the historic role of EDA and ARC.

I think that this bill has identified those aspects of economic development programs which have worked successfully in the past and has eliminated those that did not work well and for which there has been criticism. We have eliminated the loan program administered from Washington, and provided that those functions be carried out at the local level through a revolving loan fund. We kept the core program, which is the public works infrastructure element, but tightened the criteria so that only those areas of the country that are the most distressed and clearly have long-range problems will qualify for assistance.

The help that the Federal Government can provide under this bill is not excessive. It is a limited amount of help and requires a substantial contribution on the part of the local community.

The Chair also wishes to observe that the legislation this year, as in the Congress last year, is jointly referred to the Committee on Banking, Finance and Urban Affairs and to their Subcommittee on Economic Stabilization. Members of that subcommittee have been notified of our hearings and were invited to participate.

The Chair would like to, at this time, recognize the gentleman from Pennsylvania, Mr. Clinger, whose insight into the problems of economic development has been a great asset in developing this legislation as it is presently proposed.

Mr. Nowak. I will summarize parts of the statement, and then turn to our witnesses.

This morning, the subcommittee begins 3 days of hearings on proposals that would revise and extend the programs authorized by the Public Works and Economic Development Act and administered by the Economic Development Administration, and by the Appalachian Regional Development Act, carried out by the Appalachian Regional Commission.

There are many areas in our country suffering both cyclical and structural unemployment, unemployment that expands into two areas; the result of cyclical swings in the economy and unemployment attributable to certain sectors of the economy like steel, automobile and mining.

Unemployment resulting from a downturn in farming has farreaching effects on the overall economy. The role chosen by the Federal Government in the form of the Economic Development Administration, and the Appalachian Regional Commission has proven successful in stimulating job creation by the private sector. This fact was brought out clearly in 1981 in hearings by the Subcommittee on Economic Development to obtain an overview and assessment of all programs.

For example, the findings reveal that $4.7 billion invested in EDA over its 15-year existence has created or saved 1.4 million jobs in the private sector and leveraged $9 billion in private investment.

It returns annually to the State, local and Federal Governments, $6.5 billion—more than its entire 15-year appropriation.

The seed money invested in communities, in businesses located outside the economic mainstream has strenghthened the overall economy.

As a result of our findings and an indepth review of the Public Works and Economic Development Act of 1965, H.R. 6100 was introduced in the 97th Congress and reintroduced in the 98th Congress as H.R. 10.

The bills reported to the House resulted in a favorable and bipartisan response, evidenced by their overwhelming passage by a 3 to 1 margin.

Provisions of the legislation are well known. We have had extensive public discussion of the National Development Investment Act and of the finishup program for Appalachia. We have had considerable comment by professionals in the field of economic development on this legislation.

So, as we begin the process of reviewing economic development legislation as provided in H.R. 10, the National Development Investment Act, I want to make clear one very important thing: this is not a quick-fix, short-term jobs bill. This is legislation whose purpose is to generate permanent jobs, private sector jobs, in those areas of the country which have experienced extraordinary distress.

The purpose of EDA and ARC has been, and will continue to be, the creation of long-term, private-sector jobs as the best way to really cure some of the ills of the economy. We recognize that, even as we apparently are on the threshhold of a recovery, there are some areas that will always be left behind.

There are going to be areas that need additional help in order to participate in development and growth. That has been the historic role of EDA and ARC.

I think that this bill has identified those aspects of economic development programs which have worked successfully in the past and has eliminated those that did not work well and for which there has been some criticism. We have eliminated the loan program administered from Washington and provided that those functions be carried out at the local level through a revolving loan fund.

We kept the core program which is the public works infrastructure element, but tightened the criteria so that only those areas in the country that are the most distressed and clearly have long-range problems will qualify for assistance.

I would like at this time to recognize the gentleman from Pennsylvania, Mr. Clinger.

Mr. CLINGER. Thank you very much.

I have an opening statement but I would like to develop it.

Mr. Chairman, you have given a very excellent overview of what we are attempting to do here and I would hope that we could refashion some of these programs to make them cost-effective, and I think we should.

Mr. NOWAK. Mr. Wise, would you like to make an opening statement at this time?

Mr. WISE. Mr. Chairman, I'm just delighted to have this hearing. It's a very important subject for our region. I'm delighted to see that Governor Moore, the Governor of our State, is here. I look forward to hearing his remarks, but I want to thank you for bringing this subject so quickly into session.

Mr. NOWAK. Mrs. Johnson, do you have a statement that you would like to make?

Mrs. JOHNSON. I would just like to welcome all those who are going to testify today. It is of great importance to us to hear of your first-hand experience. I've seen the opportunity that these tools in my own district can create through a very powerful and positive partnership of the Federal Government and the private sector.

Mr. NOWAK. Thank you very much.

We want to give the witnesses all the time we can. I would like to turn now to Hon. Winifred A. Pizzano, who is Federal Cochairman of the Appalachian Regional Commission.

TESTIMONY OF HON. WINIFRED A. PIZZANO, FEDERAL CO-CHAIRMAN, APPALACHIAN REGIONAL COMMISSION

Mrs. PIZZANO. Thank you, Mr. Chairman, and Members of the Subcommittee. I appreciate the opportunity to be able to speak to H. R. 10, the National Development Investment Act of 1985.

Let me emphasize at the outset that the stated goal of this legislation to enhance economic development in struggling and distressed communities is one that we in the administration strongly support.

Mr. NOWAK. I take it, after that opening statement, we can just summarize the rest of your statement. [Laughter]

Mrs. PIZZANO. With all due respect, however, we continue to disagree on the most appropriate means to pursue that goal and, accordingly, we oppose the enactment of H.R. 10 on several grounds.

Focusing for the most part on title II of the bill, there are several reasons for our opposition to H.R. 10:

First, I believe that the Appalachian Regional Commission which the bill would reauthorize for 5 years has already accomplished most of its original goals.

Second, I believe that the most serious economic problems remaining in the region are the ones unlikely to be solved by ARC resources and processes—ones designed 20 years ago to deal with very different economic problems.

Third, I believe that nothing has been—or will continue to be—more beneficial to the development of the Appalachian region than the widespread economic recovery that is sweeping every part of the country and has during the past two years.

Conversely, $200 billion deficits—fueled in part by bills such as H. R. 10—threaten economic recovery and expansion all through the Appalachian region.

Fourth, I do believe it makes little sense from the standpoint of either economics or equity to provide Federal development funds generally unavailable to most of the country to communities inside the legislatively defined Appalachian region that are far better off than many outside the region.

And, finally, I believe that title II of H.R. 10, commonly described as a bill providing only what the region's Governors proposed in the finish-up plan exceeds the Governors' request for both funds and years of operation by failing to acknowledge the progress that ARC has made during fiscal years 1983, 1984, and 1985 with no authorizing legislation of this type.

I would like to spend the next few minutes reviewing in greater detail each of my reasons.

First and foremost, after serving for two and a half years as Federal Cochairman of ARC and traveling widely throughout the region, I am convinced that the ARC has, in large measure, accomplished its mission.

The problem facing the founders of the ARC 20 years ago was how to raise the general standard of living in a region where health care, housing, education, and unemployment lagged far behind the rest of the Nation.

The founders' goals were to help create in Appalachia and in her people a capacity to compete successfully with the people of any other part of the country.

In so doing, it was hoped that the massive investment of Federal funds would act to stem the region's long-running drag on the overall American economy.

At the same time, Mr. Chairman, no one in the administration would suggest that poverty has been completely eliminated in Appalachia, any more than we would suggest that it has been completely eliminated everywhere else in the United States.

But, to remember the Appalachia of 1965 is to truly appreciate the Appalachia of 1985. The many accomplishments of the ARC during the intervening years have included nearly 2,000 miles of development highways; 900 miles of access roads; 340 projects to build or modernize hospitals, and an additional 400 projects to provide primary health care; 700 vocational education and technical training schools that have been built in the region; 7,500 units of housing that have either been built or rehabilitated; more than 1,300 sewer and water projects have been implemented and there have been 135 industrial parks built.

The results of those efforts have been truly remarkable. Income in Appalachia increased nearly 70 percent between 1960 and 1980. Population grew during the same period from 17.7 million to 20.2, reversing years of outmigration.

Nearly 2 million new jobs were created during those two decades; and, at the same time, per capita income in Appalachia increased 48 percent, raising from 77 percent of the national average to nearly 85 percent in 1980.

Even more gratifying, today's residents of Appalachia are far healthier, better educated and more highly skilled by any measure than they were when the ARC began.

No longer can Appalachia be called the stepchild of the United States and no longer can economists indict the Appalachian region as a drag on the performance of the nation's overall economy.

For that reason alone, notwithstanding all the others, America's 20-year investment in the development of the Appalachian region has paid off.

However, there are those who say we're not done because there are still pockets of poverty in Appalachia, and communities lacking some of the improvements that ARC has funded in other places throughout the region, to which I respond: Not even ARC's founders themselves thought it was either feasible or sensible for the Commission to fund economic development in every distressed community in the region. In fact, they specifically wrote into the original legislation a requirement that ARC funds be spent in areas not of greatest need but with the greatest potential for growth.

We have, as you know, allocated a sizeable sum during the past 3 years to provide some basic services to our most distressed areas.

But that effort was not part of the original mission and should not be considered central to any judgment about our success or failure in accomplishing its original goals.

So, too, there are others who say we're not done, and point to sustained unemployment in the coalfields and in some heavily industrialized parts of northern Appalachia. To them, I respond: we are truly concerned about those unemployed workers, but, by and large, the causes of their plight are beyond the control of ARC, which brings me to the second reason I oppose the enactment of H.R. 10.

Structural unemployment has not responded to ARC resources or programs, and the majority of current unemployment in the region is caused by structural changes in the national and political economy.

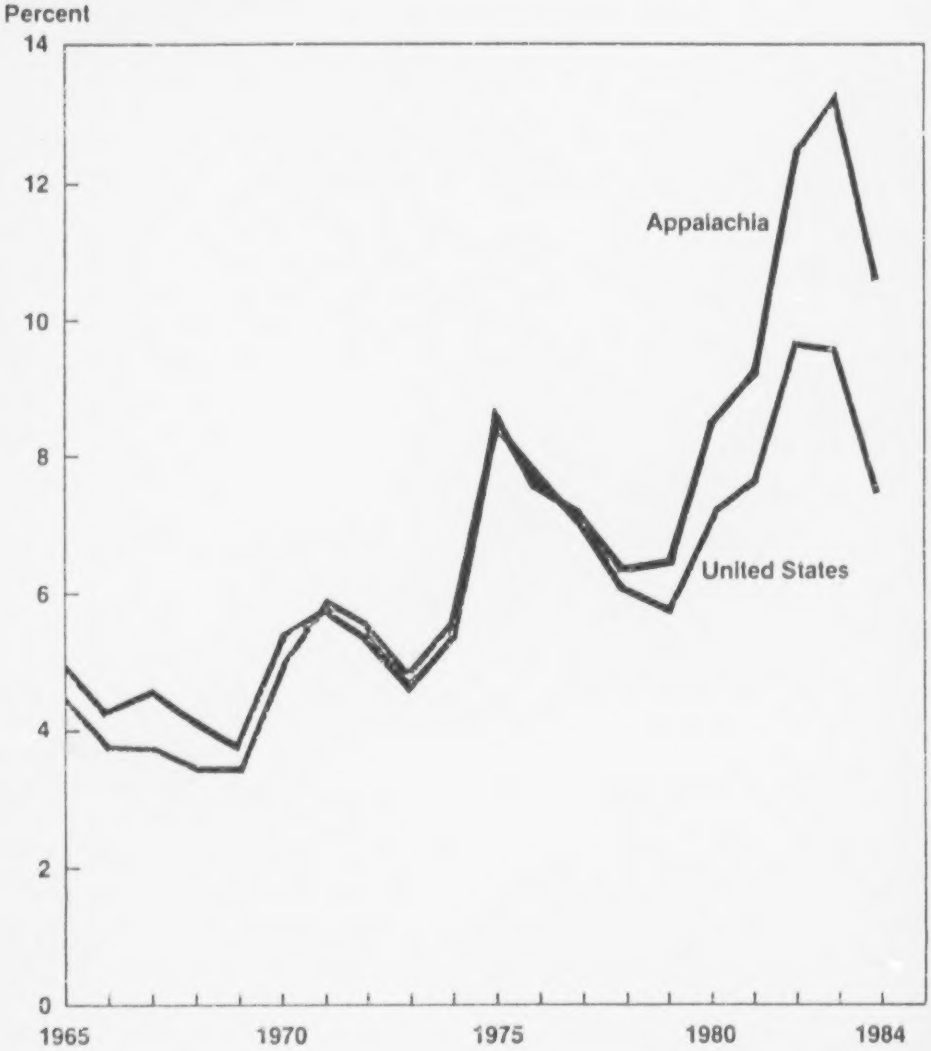
Appalachia remains a region disproportionately dominated by manufacturing and coalmining. The major manufacturing industries that predominated in 1965 are still the dominant ones today.

Mr. Chairman, the economics of Appalachia are interesting for policymakers, so I'd like to dwell on them for a few moments. More than 2 million new jobs were created in Appalachia during the past

20 years. However, the employment gains and losses which occurred during and after the recent recession seem to indicate that parts of the region's economy are responding to technological changes, as well as national and international market forces. But these areas and their principal industries are not adjusting well to changes in the business cycle and have not responded fully to the more traditional approaches to economic development.

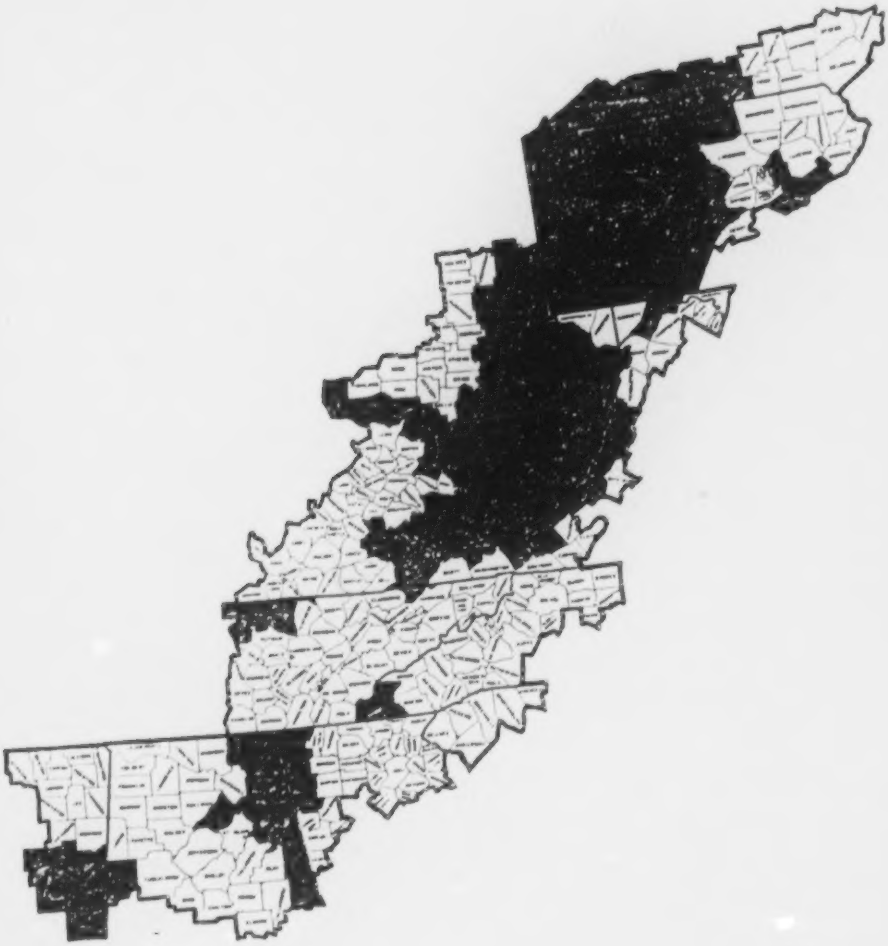
In the late seventies, the region's unemployment rate began to exceed that for the Nation as a whole, a pattern that is illustrated by exhibit 1 here on the board and, also, I think you have it in front of you.

Unemployment Rates
Appalachia and United States
1965-1984



Mrs. PIZZANO. Between 1980 and 1983, over 500,000 jobs were lost. Some 350,000 of them were in manufacturing as the chart on the following page indicates.

Areas Losing Jobs Appalachia 1980-1984



Mrs. PIZZANO. Exhibit 2 shows areas which suffered the most severe job losses during the first 2 years of this decade. As you can see, among the hardest hit of the region are the coal fields in the heart of Appalachia and the industrial areas dominated by heavy manufacturing and metals in the North.

When coal was booming, during the oil squeeze in the mid-seventies, people were moving to central Appalachia in record numbers. When the coal market slumped, so did employment in the mines. Even if foreign or domestic demand for Appalachian coal swings upward again, it is commonly agreed that new technology and modernization will enable coal operators to meet that increased demand with few additional miners.

The plight of the primary metals industry is well known. Appalachia's fabricated metals industry has also seen its growth severely cut, or eliminated, in recent years.

Change in both industries is a worldwide phenomenon which has yet to fully run its course. And a chief cause of the distress felt by northern producers is the stiff challenge being mounted by overseas competitors armed with both technological and labor-saving advantages.

No less damaging, however, has been a steady decline in worldwide demand for steel and related products; at the same time, productive capacity has been increasing in many foreign countries.

On the other hand, some of the healthiest, fastest growing, and most eagerly sought manufacturing firms of America are the makers of instruments, electrical and electronic devices. These are high value-added producers, whose workers tend to be well-educated, highly trained, or both.

In Appalachia, manufacturers of instruments and electrical and electronic devices are widely dispersed. While these firms employ a relatively small share of Appalachia's aggregate work force, they are proving to be potent catalysts for diversified growth and, as such, indirect creators of additional new jobs in the communities in which they operate.

Banks, engineering and technical firms, and a variety of other so-called service industries tend to spring up wherever these good manufacturing firms locate.

This sort of diversification is a major plus for any community, because, the more diversified an area's economy, the greater its ability to weather periodic downturns in particular industries.

It is that lack of diversification, in favor of an overwhelming reliance on coal production, that has caused such economic difficulty in the middle or central portion of the Appalachian region.

Diversity in a local economy is achieved in several ways. It is achieved when existing businesses take the steps necessary to sell their products in new markets, at home or overseas. It is also achieved when new firms—perhaps very different firms—open for business in a new community. And it can be argued, I believe, that diversity in an area's economy is increased as its workers' educational attainment goes up because, the better educated the work force, the more transferable are its skills.

We can nibble around the edges of the problems created by falling demands for these products that Appalachian workers have historically produced. In fact, we are doing some of that now.

But the reality is that the problems facing the Appalachian economy in 1985 are different than those which it faced in 1965 and won't, for the most part, be solved by an agency designed and driven by the imperatives of another era.

The third reason I oppose H.R. 10 is my conviction that the President is right about the need to cut substantial amounts of Federal funding in order to help bring deficits under control.

As the members of the committee well know, the President's view is shared by millions of Americans who are concerned about the enormous growth of the size of Federal deficits, budget deficits that threaten interest rates, jobs and economic recovery in every part of the country but especially in Appalachia.

Clearly, some entire programs will need to be eliminated if we are to make meaningful reductions in those $200 billion deficits.

I believe ARC is one such program. Not only are virtually all of the benefits of ARC assistance captured locally but, in many cases, State and local governments are in a far better position to fund those types of projects than is the Federal Government.

Fourth among my reasons for opposing the reauthorization of ARC is one that every American understands—which is fundamental fairness. People may disagree about which programs to cut or which taxes to raise, but they all agree that the necessary "belt-tightening" should be fair and that any sacrifices should be shared.

In my judgment, further funding of the ARC fails any test of fairness because of the assumption that underlies its existence.

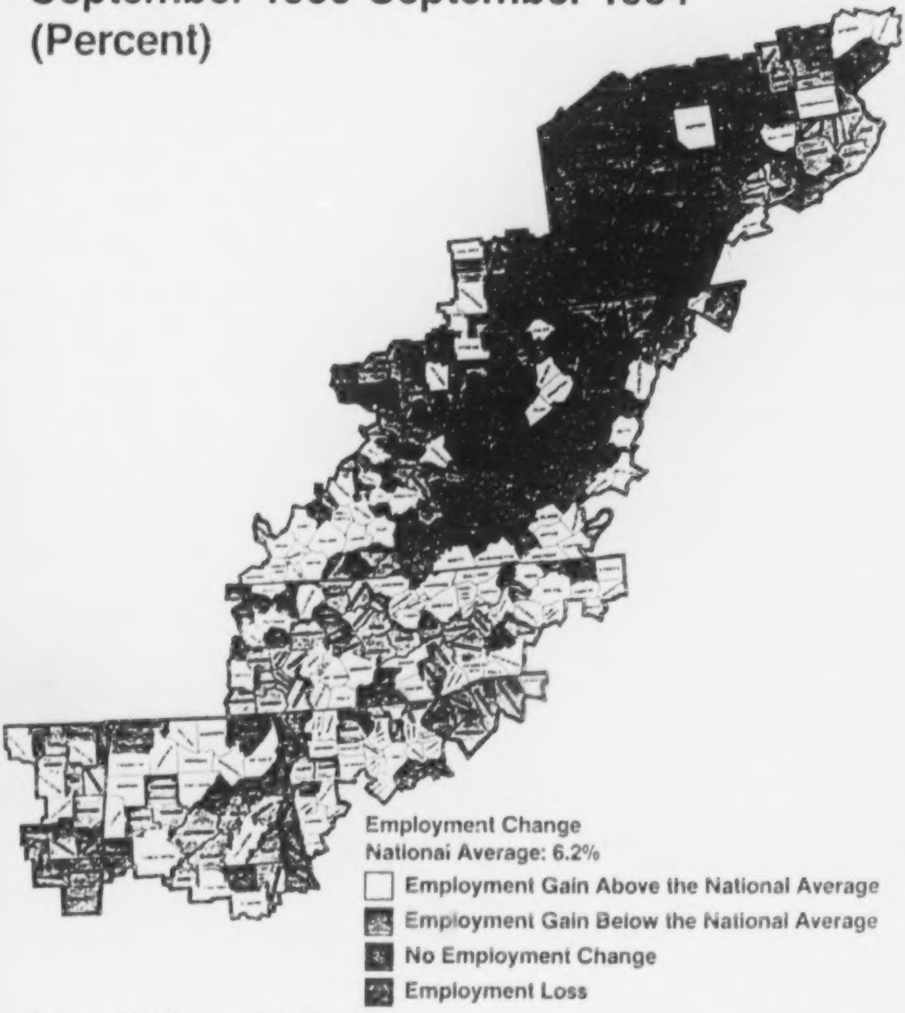
Simply put, by funding an agency that awards grants the way ARC does, Congress is saying: "If your community falls anywhere within the legislatively defined boundaries of ARC, no matter how healthy your local economy, you are eligible for ARC grants."

If, on the other hand, your community is located outside of those boundaries, no matter how distressed it may be, your community is ineligible for any special regional economic development funds.

The result of that inequitable arrangement is that people in recession-wracked communities outside of Appalachia have been funding ARC projects in Appalachia for communities with better unemployment numbers than the Nation as a whole.

The Appalachian portions of four ARC States, for example, have unemployment rates lower than the national rate—a rate that is exceeded by many States outside the region.

Employment Change
Appalachia
September 1980-September 1984
(Percent)


Employment Change
National Average: 6.2%
☐ Employment Gain Above the National Average
▨ Employment Gain Below the National Average
■ No Employment Change
▩ Employment Loss

Source: U.S. Bureau of the Census

Mrs. PIZZANO. Exhibit 3 shows relatively healthy counties, as well as "seriously distressed counties" are scattered together throughout the central and southern part of the region. Yet they all have one thing in common: with the exception of the ARC "distressed counties" program, all those counties are deemed equally eligible for funding in the eyes of the ARC.

Even EDA recognizes that some areas, albeit only 15 percent of the country, but at least some areas, should be deemed ineligible for economic development assistance because of their relatively healthy local economies, but not ARC.

Mr. Chairman, in these times of tight budgets, that indiscriminate approach to economic development is one the American taxpayers cannot afford and one this administration cannot defend.

And, finally, Mr. Chairman, let me elaborate on the fifth objection I outlined at the beginning of my statement.

Title II of H.R. 10 has been repeatedly described as the authorization of the Governors' Finishup Program, originally submitted to Congress in 1983.

A comparison of the numbers originally proposed by the Governors and the amounts spent by ARC during fiscal years 1983, 1984, and 1985 reveals that, by failing to deduct from the language in the bill amounts already spent, H.R. 10 actually authorizes $147 million more than the Governors requested.

Moreover, while the Governors proposed to keep the ARC in operation through 1984, H.R. 10 authorizes the Commission to continue operating through 1990.

As you know, in 1982, the administation proposeod that $320 million be appropriated for the completion of ongoing highway projects and repayment of prefinancing. Since then, more than that amount has been appropriated. Therefore, the administration believes that the remainder of the highway program can be funded from other sources.

I would like to take just a few minutes of the committee's time to outline what I believe are several more promising options for supporting local development in the Appalachian region.

With new job creation, the core of any successful development strategy in Appalachia, I would strongly urge that Congress, if it should decide to continue aiding local development, focus its assistance efforts on measures designed to help local communities encourage the creation and growth of private-sector businesses. And I would further suggest that such tools, most of them on the tax side, be made available nationwide on a targeted basis to communities meeting whatever limiting standard Congress chooses to set.

I would suggest, for instance, giving rural or distressed communities an edge in business development by permitting them the greatest share of industrial revenue bonds as a practicality. Such an approach, it seems to me, would make IRB's a more effective tool for economic development than is now the case.

While they are issuable anywhere, their effectiveness as inducements to industry becomes devalued everywhere. If Congress is serious about giving communities like many in Appalachia an economic development edge, why not give them a real edge—the opportunity to offer firms an inducement not available from better-off communities?

Similarly, if "enterprise zones" are proving to be effective tools for new job creation in distressed areas—and the large number of States that have created enterprise zones suggests that they are, then why not move quickly in Congress to pass Federal enterprise zones legislation? Once again, it would give distressed communities in need of economic development a meaningful edge over healthier communities not eligible to create Federal enterprise zones.

Another obstacle to job creation in many parts of Appalachia has been a shortfall of available capital. As this committee knows, availability of capital is absolutely essential to new and expanding businesses.

I would urge, then, that Congress give careful consideration to measures designed to stimulate a greater flow of investment and venture capital into Appalachia and similar capital-short areas around the country.

And, finally, I suggest that Congress consider that, whatever scarce Federal tax dollars may be allocated to local development, those dollars can be stretched much further; they can help more businesses create more jobs if they are made available through revolving loan funds, rather than outright grants, whether they are matched or not.

As I said at the beginning of my statement, Mr. Chairman, the best way to appreciate the Appalachia of today is to remember 20 years ago, and I think that each of us would agree that today the future is far brighter. Any number of social and economic indicators make that case—without question.

During the past 20 years, we confronted the challenges of the sixties and, in large measure, they were met. To confront these new challenges of the eighties—new and different challenges in a new and different economic environment—that's the task we face today.

But the problems of Appalachia also face the rest of the Nation. Problems and opportunities associated with the international marketplace, with emerging technology, and with work force skills that must be addressed in national monetary policy, trade policy and tax law changes and an absolutely essential reduction in dangerously high Federal deficit.

At the national level, tough political decisions have already helped spur widespread economic recovery—and the benefits to every region of the country are apparent to us all. There is an important lesson there, I believe, for those charged with solving the remaining economic problems which America has yet to overcome.

That concludes my prepared statement, Mr. Chairman. I will be pleased to respond to any questions you may have.

Mr. NOWAK. Thank you very much. I still think that first paragraph is terrific. And I must say we had an opportunity to go over some of the statistical information that you had and the comprehensive nature of your statement has given us a different focus on the region and what has transpired certainly over the period of time.

We are under somewhat of a problem because Governor Moore who is here has to catch a plane very shortly. I'm wondering if you would mind if we let the Governor testify and answer a few brief questions and he'll be on his way. Then we'll bring you right back, because there are—I'm sure, beside myself—other questioners here who would like to discuss your statement because it has provoked, and I think will provoke, a lot of comment.

[Witness temporarily excused.]

Mr. **Nowak**. Governor Moore, would you come forward, please? The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

Statement of Arch A. Moore, Jr.
Governor of West Virginia
to the
Subcommittee on Economic Development
House Committee on Public Works and Transportation
March 20, 1985

Chairman Nowak and members of the Subcommittee, I welcome this opportunity to comment to you on the urgency of continuing the Appalachian Regional Commission Program.

I fully understand the economic problems that face our nation. I realize the mandate the Administration has received from the people of this country to cut back, and, I support efforts that are designed to get our nation's economy moving in a positive direction once again. It is precisely with those goals in mind that I am in support of continuation of the ARC Program.

As Governor of West Virginia and ARC States' Co-Chairman more than a decade ago, as a Member of Congress prior to that who fought for this program, as a private citizen of West Virginia in the late 1970s and early 1980s, and now as Governor again, I have observed closely the economic problems and progress of the only State which is entirely within the Appalachian Region.

I have watched progress toward national economic levels in my State and in Appalachia and the surging hope that we could attain those standards. Unfortunately, in more recent years, I have watched that hope dim as unemployment climbed in manufacturing plants and coal fields.

Let me highlight briefly the progress we have made in West Virginia and some of the remaining problems ARC can help us solve.

During the 20-year history of the ARC Program, the Commission has made available over $5.0 billion to the rural 13-State Appalachian Region. There have been many types of projects that have benefitted from ARC funding. A majority of funds have been directed toward the building of our highways. The accomplishments have included the completion of 1,950 miles of development highways and 816 miles of access roads, linking communities of the area to national markets and providing access to industrial, commercial, recreational, residential and service sites to assist with the economic growth of Appalachia.

According to a 1981 survey to determine the effect of the corridor system on the Region, a major share of the Region's industrial growth is linked to the highway—or corridor—system. Almost 60 percent of new manufacturing plants employing 50 or more persons that have located in Appalachia since 1965 selected sites within 30 minutes of an existing or planned corridor.

Almost 430,000 new jobs have been created along or near the Appalachian corridors. Of these, 182,600 were in manufacturing plants employing 50 or more persons, while industries employing fewer than 50 people were estimated to add another 32,000 new jobs. For each of these 214,000 new manufacturing jobs, the survey estimated that a supportive job in service sectors, trade and transportation was created, for a total of nearly 430,000 new jobs.

Moreover, construction of the Appalachian Development Highway System has been itself a boom to the Region's economy. A Federal Highway Administration estimate suggests that in 1979 and 1980, work on the new highways generated 8,000 to 10,000 jobs directly, another 8,000 to 10,000 jobs indirectly.

Regionally, the revised Development Highway System is 78.7 percent complete. A failure to complete corridor construction would leave a umber of gaps in the system, with a series of completed projects almost isolated, their promise unfulfilled.

The State of West Virginia has completed 261 miles of its share of the Appalachian Development Highway System: 206 miles of that system were completed during my previous term as Governor. Travel time improvements have had a pronounced effect upon industry locating in these areas, per capita income has risen, the poverty level has declined, and new jobs have been created.

While this is impressive, there still remain 147 miles of the Development Highway System in West Virginia not yet initiated. Unfortunately, one of the most important segments--Corridor G, a link to open up Southern West Virginia, to span West Virginia from Charleston to the Kentucky border—remains incomplete.

It is this Corridor that, when coupled with the improvements in Eastern Kentucky made possible by the Development Highway System, will cut travel time from Charleston to Knoxville by more than two and one-half hours. The savings in travel time and safety means new markets for West Virginia products, and new access to West Virginia for producers from other states, as well as tourists.

Energy production is well known in our Region. It is estimated in West Virginia alone that we have some 37 to 39 billion tons of totally recoverable coal. There are, however, obstacles to the increased utilization of that energy resource. One of those is a viable transportation system. The ARC programs, when they are complete, will assist in the transportation of that commodity. It is, I believe vital to our national interest.

The completion of Corridor G also, as I suggested earlier, will assist not just in coal transportation but in the diversification of this area's economy, so that hopefully it will never again experience a grim 30 percent unemployment rate. Fifty-two miles are open to traffic and 2.6 miles are under construction, but the remaining 23 miles in four segments along the Corridor cannot be completed without ARC funding. The State of West Virginia has obligated $623 million of ARC Development Highway Funds to date and we must be permitted to continue, to maintain the progress we have made. Otherwise, the value of the enormous investment made thus far will be severely limited.

Although a majority of funds has been directed toward highways, over $222 million have been made available to my State for achievements in education, vocational education, health, child development, recreation, public water systems and sewer systems, and other community development, research, and demonstration programs. The quality of life for West Virginia citizens has improved, and it must continue to improve to support further economic growth.

With $10.8 million in child development funds we have been able to make educational activities available to every pre-school child in the State and assured quality child care in many areas. The commitment of over $29 million to vocational facilities has advanced the cause of education, allowing for training opportunities to be available in even the most remote corners of my State. The $43.4 million targeted to health care has made a phenomenal impact, establishing primary care facilities, health clinics and preventive care programs and striving to ensure medical professionals are available to serve every West Virginian.

We have also made major investments in public facilities, particularly water and sewer systems. Overall during the ARC years, we have committed more than 10 percent of all Commission dollars to such facilities; and in recent years approximately half of the discretionary State and Federal dollars have been invested in water and sewer systems.

But much work remains to be done.

It has been estimated that $450 million is needed for construction of public water systems and upgrading existing facilities in the State to meet State Department of Health standards and provide 95 percent of West Virginia's citizens with a quality water supply. Even more startling is the fact that my State alone will need $1.9 billion for construction and upgrading of all wastewater systems to secondary treatment levels, to conform with the U.S. Environmental Protection Agency guidelines. A minimum of $11 million for solid waste disposal will be required over the next five years to fund 15 priority projects, nine located in West Virginia's targeted Distressed Counties' areas.

We must strive to meet these crucial needs, and ARC funding is imperative.

We need both the ARC funding and the ARC way of targeting funds. The beauty of the partnership of the ARC Program is the ability to arrange financial packaging to make optimal use of available funds for State priorities. The ARC regional approach to problem-solving is an outstanding example of how Federal-State-Local cooperation can be an effective and essential approach to economic development.

I was supportive of the creation of the ARC State Regional Planning and Development Councils, the local development districts authorized in ARC legislation. They have engaged in comprehensive planning and development in their regions to provide technical assistance to local governments and they have served well. Private sector leaders and local elected officials share a belief in the ARC strategy and process, pulling interests together for the common good to spend Federal and other tax dollars on priority needs.

The creation of private sector jobs has always been a major goal of the ARC Program, a prime example of public investment creating a base for private enterprise to build on. The economy has strengthened, but West Virginia and the rest of Appalachia have been set back in recent years by a severe recession and a national shift from the heavy manufacturing and coal industries. So, there is much that must still be done.

As you know, ARC has been continued for the last several years through the appropriations process, but we need the authorization provided through H.R. 10. It would permit the Appalachian States and communities to plan more effectively for the use of ARC funds to achieve the goals we have set.

In summation, Mr. Chairman, we urgently need help to complete our Appalachian Highway System and help in providing basic services for our people and communities, improvements that will attract private investment and create jobs. The private sector will continue matching those funds in a successful partnership between Federal and private investments. While we still lag behind the rest of the nation, through that partnership Appalachia is catching up, and with a bit more time, we will catch up.

With the help of the ARC program authorized in H.R. 10, I am confident that the ARC program, harnessed with State policies and programs, can achieve the goals for Appalachia we set together two decades ago, goals to which my new administration, like my previous one, is committed.

Mr. **Nowak**. Please proceed.

TESTIMONY OF HON. ARCH A. MOORE, JR., GOVERNOR OF WEST VIRGINIA

Governor **Moore**. Thank you and good morning, Mr. Chairman.

Mr. **Nowak**. I'll introduce to the Governor someone who has been very active on this committee and looking out for the interests, trying to, I think, suggest some of the things that, as Mrs. Pizzano points out in her statement, would target funds to some of the depressed areas in not only his specific congressional area in West Virginia but, certainly, for the whole State.

I want to introduce our colleague, Bob Wise, to introduce the Governor.

Mr. **Wise**. Thank you, Mr. Chairman; I want to welcome Governor Moore here. Mr. Chairman, Governor Moore is no stranger to the members of this body. He was in the House of Representatives for 12 years.

He, of course, has returned to public service as Governor of the State of West Virginia. He is committed to a very strong economic development activity. He, I think, in just a few short months, since taking office, has really grabbed hold of the reins well and is pushing the State forward.

Something that Governor Moore said in his state-of-the-State address, I think, is very apropos here in which he told the people of West Virginia in a sentiment that I heartily agree with that it is within us to advance ourselves and we must focus our energies not to look for a great Federal hand to take advantage of certain tools that are there, but the spirit has to come from the people within West Virginia, and I think that can be translated to the people in Appalachia. But, at the same time, recognizing that there are certain resources that the Federal Government can provide in that effort, he's been very active in focusing the efforts at the local level and in trying to build that spirit in West Virginia to move forward.

And it gives me great pleasure to introduce to this committee, Governor Arch A. Moore, Jr.

Governor **Moore**. Mr. Chairman, if I might proceed: Chairman Nowak and members of this subcommittee, I welcome this opportunity to comment to you on the urgency of continuing the Appalachian Regional Commission Program.

If I might digress from my statement, I will simply say I am reminded of a family in my community that I grew up in that had the name Buzzard. And it always attracted just a little bit of attention—not necessarily was it looked down upon, but the individual was inquiring one day about the pronunciation.

And he said: Well, it will remain BUZZ-ard until I pay off my mortgage and it will then become Bue-ZARD. [Laughter]

Governor **Moore**. As I listened to the presentation here this morning, it seemed to me that what began, and historically was referred to, as "App-a-LATCH-a" is now "App-a-LAY-cha." And I don't want to leave anybody with the impression that we paid off the mortgage by any stretch of the imagination.

I fully understand the economic problems that we face in our Nation. I realize the mandate the administration has received from the people of this country to cut back, and I support those efforts that are designed to get our Nation's economy moving in a positive direction and it is precisely with those goals in mind that I support the continuation of the ARC Program's objective.

As Governor of the State of West Virginia and the ARC States' cochairman more than a decade ago and as a Member of Congress prior to that who fought for this program and as a private citizen of the State of West Virginia, in the late seventies and early eighties and now again as Governor, I have observed closely the economic problems and the progress of the only State which is entirely within the Appalachian Region.

I have watched progress toward national economic levels in my State and in Appalachia and the surging hope that we could attain those standards and, unfortunately, in more recent years, I have watched that hope dim as unemployment climbed in manufacturing plants and in the coal fields of our State.

Let me highlight briefly the progress we've made in West Virginia and some of the remaining problems ARC can help us resolve.

During the 20-year history of the ARC Program, the Commission has made available over $5 billion to the rural 13-State Appalachian Region. There have been many types of projects that have benefitted. A majority of funds have been directed toward the building of our highways. The accomplishments have included the completion of 1950 miles of developmental highways and 816 miles of access roads, linking communities of the area to national markets and providing access to industrial and commercial and recreational, as well as residential and service sites to assist with the economic growth of Appalachia.

According to a 1981 survey to determine the effect of the corridor system on the Region, a major share of the Region's industrial growth is linked to the highway or the corridor system.

Almost 60 percent of new manufacturing plants employing 50 or more persons that have located in Appalachia since 1965 selected sites within 30 minutes of an existing or planned corridor.

Almost 430,000 new jobs have been created along or near the Appalachian corridor system. Of these, 182,000 were in manufacturing plants employing 50 or more persons, while industries employing fewer than 50 people were estimated to add another 32,000 jobs.

For each of these 214,000 new manufacturing jobs, the survey estimated that a supportive job in service sectors, trade and transportation was created for a total of nearly 430,000 new jobs in the area.

Moreover, construction of the Appalachian Development Highway System has been itself a boon to the region's economy.

The Federal Highway Administration estimate suggests that, in 1979 and 1980, work on the new highways, in and of themselves, generated 8,000 to 10,000 jobs directly and another 8,000 to 10,000 jobs indirectly.

Regionally, the revised Appalachian Development Highway System is 78.7 percent completed. A failure to complete the corridor's construction would leave a number of gaps in the system, with a series of completed projects almost isolated, their promise never to be fulfilled.

Now, the State of West Virginia has completed 261 miles of its share of the Appalachian Development Highway System. Mr. Chairman, 106 of those miles of that system were completed during my previous term as Governor of our State.

Travel time and accessibility improvements have had a pronounced effect upon industry locating in these areas; per capita income has risen; the poverty level has declined and new jobs have been created.

Now, while this is impressive, there still remain 147 miles of developmental highway in West Virginia not yet initiated. Unfortunately, one of the most important segments—Corridor G, a link to open up southern West Virginia to span West Virginia from its capital, Charleston, to the Kentucky border—remains incomplete.

It is this corridor that, when coupled with the improvements in eastern Kentucky made possible by the Developmental Highway System, will cut travel time between, for example, Charleston to Knoxville, by more than 2½ hours. The savings in travel time and safety means new markets for West Virginia products and new access to West Virginia for producers from other States, as well as tourists.

Energy production is well-known in our region. It is estimated in West Virginia alone that we have some 37 to 39 billion tons of totally recoverable coal.

There are, however, obstacles to the increased utilization of that energy source and one of those is a viable transportation system. The ARC Programs, when they are complete, will assist in the transportation of that commodity. Bring it to the marketplace—at a more competitive price. It is, I believe, vital, therefore, to our national interest that we complete these transportation systems.

The completion of corridor G also, as I suggested earlier, will assist not only in coal transportation but in the diversification of this area's economy, so that hopefully it will never again experience a grim 30 percent unemployment rate. Fifty-two miles of this corridor are open to traffic and 2.6 miles are under construction, but the remaining 23 miles in four segments along the corridor cannot be completed without ARC funding. The State of West Virginia as its part has obligated $623 million of the ARC Development Highway Funds to date. We have bartered ourselves in order to aid in the completion of these particular corridors. We have not been content to permit the Federal Government, the Appalachia Regional Commission to have this burden alone. The value of this enormous investment made thus far is going to be severely limited and subtracted.

Although a majority of the funds have been directed toward highways, over $222 million have been made available in my State for achievements in education, health, child development, recreation, public water systems, sewer systems, and all of those which improve the quality of life.

Granted, the quality of life in West Virginia has improved, but it must continue to improve to support further economic growth. With $10.8 million in child development funds we have been able to make educational activities available to every preschool child in the State and assured quality child care in many areas. The commitment of over $29 million to vocational facilities has advanced the cause of education, allowing for training opportunities to be available in even the most remote corners of my State. Also, $43 million has been targeted to health care and that has made a phenomenal impact, establishing primary care facilities, health care clinics, preventive care programs and striving to ensure medical professionals are available to every West Virginian.

We have also made major investments in public facilities, particularly water and sewer systems. Overall during the ARC years, we have committed more than 10 percent of all the Commission dollars to such facilities; and, in recent years, approximately half of the discretionary State and Federal dollars have been invested in water and sewer systems.

But much work, Mr. Chairman, remains to be done.

This is a partnership effort. The State of West Virginia is willing to accept and undertake its obligations in that regard.

For example, it has been estimated that $450 million is needed simply for the construction of public water systems and upgrading existing facilities in the State in order for the State Department of Health to provide 95 percent of West Virginia's citizens' need for quality water, and even more startling is the fact that my State alone would need to spend $1.8 billion for construction and upgrading of the waste system to conform with the Environmental Protection Agency guidelines. A minimum of $11 million for solid waste disposal would be required in the next 5 years to fund 15 priority projects, nine located in West Virginia's distressed counties' areas.

Mr. Chairman, we must strive to meet these crucial needs, and ARC funding is absolutely essential. It is imperative.

We need both the ARC funding and the ARC way of targeting funds. The beauty of this partnership of the ARC Program is the ability to arrange financial packaging to make optimal use of available funds for State priorities. The ARC regional approach to problem solving is an outstanding example of how Federal-State-local cooperation can be effective and an essential approach to economic development.

I'd like to digress here, if I might, and just comment on the authorization made by the Federal cochairman in pointing out to the membership of this committee, and you, Mr. Chairman, that certain areas and county designates, presently their per capita income exceeded the national average, that unemployment in that particular—those particular areas were significantly below the national average, but if you look at the spending flow charts of the Appalachian Regional Commission and the priorities established by States, less than $220,000 has gone in—of Appalachian Regional Commission money has gone in, to any of those areas that have per capita income higher than the national average.

The flexibility of this program that allows States to target the areas for this joint effort between States and the Federal Government is really significant.

Mr. Nowak. Governor, let me advise you that we discussed that very thing with EDA yesterday when we had the administrator here. What we plan to do is—and it would hold true for the ARC Program, too—is ask for a monthly report as to where and how the funds are targeted, both in the EDA Program and now in the ARC Program.

What we would like to do is work with the Federal Cochairman and the Governors and try to enhance that targeting concept. It is really imperative and if we had that information on a monthy basis, at least we would have some oversight, you know, into the programs as we went along to make sure that the most effective utilization of these projects could be agreed upon. I am sure that the Federal Cochairman would be very interested in trying to do that and playing an active role in this approach. So, we will be calling on other governors for that information.

Governor MOORE. Mr. Chairman, may I conclude by saying that I was supportive of the creation of the ARC Regional Planning and Development Councils. I will digress again from my statement to comment on the observation made by the chairman. The burden really shifts in this program from Federal establishment to the States and to the chief executive officers of the States to establish a system of priorities to target the areas. The greatest need, the areas which, obviously, continue to be out of step in the—as the Governor of a State, I can't take any pride at all in having to finance the best health or educational systems in one county and find the county adjacent to it substandard in every regard.

I have to focus my attention to the evenness of the application of the growth of the area for which I have the responsibility being Governor.

In terms of private sector jobs, this continues to be a tortuous path, in my judgment. We can show significantly charts that perhaps call attention to gain. I am not willing to submit that there is significantly a different grouping that can apply that to Appalachia in 1985, that is significantly different than Appalachia in 1965 when we had this matter before the Congress for initiation.

I believe that any broad brush comparison today must necessarily say, "Well, look, we have spent significant sums of money here." There's got to be some major problems and I think any reference to growth or improvement is a confirmation of the success of the program and not an indictment of it. And it is in that particular regard that not wanting to sit as an oracle by any stretch of the imagination, Mr. Chairman, but I am a member of your club, having sat on that side of the desk for a long number of years. This program has had the same tortuous climb in its beginning as it has today. And simply because it is unique in concept and unique in approach, and is a targeting procedure, more unique than any of the other Federal-State programs in existence.

I think every one of you that have supported it in the past can take a measure of personal pride, even though, you yourself have not come from areas that have significantly benefited from it.

Mr. Chairman, I would simply conclude by saying to you that the continuation of this program—I am not frightened by the suggestion that either of these legislative enactments suggested to authorize this program beyond that which is contemplated in the finishup program. That, in and of itself, can only be tempered by the appropriation process, and if I know the Congress very well, it will be tempered by the appropriation process. And I would simply urge the membership of this committee, both those that might be considered on my side of the aisle and those that are on the other side of the aisle, to look with a sense of pride and the distance that this region has traveled, and to support a continued authorization of ARC in either of the fundamental legislative proposals that are before you.

I would be happy, Mr. Chairman, to respond to any questions.

Mr. **Nowak**. Well, Governor, thank you very much. I know you have a time limitation. I will be very brief. At this time, I would ask the members also to keep that in mind as they have the opportunity to ask questions.

You mentioned the highways are a very important piece of what has proved to be a great help in your expanded economic development goals here, and we looked through a whole array of Federal programs and some of the areas that have great growth in this country today. If you go back 30 years, 35 years ago, when they did not have substantial growth, and you start to analyze why those areas started to grow, you do turn to Federal programs. The Federal-Aid Highway Defense Act in the 1950s opened up an awful lot of areas in this country that were almost inaccessible. Certainly, the South, areas in the Southwest and West have benefited, and have had tremendous opportunities because of Federal investments. And we can look at other programs, resource programs and some of the other major initiatives that have come into the Federal system to open up tremendous areas.

It is ironic today that at 7 o'clock I was watching one of the TV shows, and they were discussing where the movement in population would go to in the next 10 years or so, and they targeted the areas I just mentioned. The Southwest would be a great recipient, and, of course, the Northeast and the Midwest would continue to decline. These were preferences and it was very clear from looking at the regions why people would move—at least in 80 percent of the cases. Not the climatic conditions, for the golfers and those who follow the sun, but the ability to make a living was, at least in 80 percent of the cases, the sole reason for selecting a region, and if the region offered the employment, that is where they would go.

So, when we look at this program, what I am going to try to stress is using H.R. 10 as a vehicle to try to put together the concept of some involvement, because the Federal Government does have tremendous influence, not only through the programs that we manage which keep an area competitive through the highway and water programs, but we also look at trade policy. Somebody sitting in West Virginia has very little control over what comes in, yet the effects of the trade policy and the trade deficit that has grown have had, I think, tremendous effect on where population is and, in the last analysis, whether people are going to be able to stay or move. It depends where the opportunities are growing. So, we do have, I think, some Federal responsibility in this full national growth area. Besides the Tax Code, I think that there are other, broader issues, such as the strong dollar. When you analyze what's happened in the ARC areas, it's much like the Northeast where you have had a reduction in "manufacturing employment." And even though all areas, including yours, have increased employment, it is nowhere close to even making up the kind of hard manufacturing employment that has been lost. So I think we do have a responsibility, and this program has provided a minimal kind of Federal presence. I, for one, hope we sustain it. In fact, when these highways have been completed, and the infrastructure gets in, the more opportunity you will have to expand your private sector.

With that, I have some questions that I would like to submit, particularly to the Governors' Association, and items that we would like you to look at and try to analyze in developing what I hope will be a new concept in economic development after we get by this budgetary crunch. But we will be back to you in the spring, hopefully. We can come out and see some of the West Virginia mountains, but let me turn you to Mr. Clinger.

Mr. CLINGER. Thank you, Mr. Chairman.

I have a couple of questions I would like to ask for the record. One of the criticisms of Appalachia, and, indeed, the ARC Program, and all Federal, and county development programs is that they do not really provide a long-term solution; that you continue to need the input of Federal funds to keep the area that's intended to be benefitted moving in the right direction.

I am wondering whether that is true. Isn't there a point at which you create kind of a critical mass which permits a community or an area to take off on its own? Or is it indeed true that we have made investments in Appalachia which we continue to prop up? Is there a point at which you can take away the crutch and that because of that investment, we have seen a community begin to take off on its own and not require additional Federal or State funds?

Governor MOORE. I think that the area, the region very much can reach a point in time that it can make a positive contribution to the total economics of the country. The uniqueness of the area by reason of its overreliance, by the area, of course, I mean West Virginia, on coal mining and the heretofore heavy reliance on manufacture, and the mix is now changing somewhat in that area.

No, I believe that if the opportunity is given to the region to complete its highway transportation system, to open it up and let it breathe, it has some of the components attractive to its internal development. I think there is a willingness on the part of the States involved here without question to make a greater contribution, to reaching out and backfilling in the areas where the Commission itself has decided that we should go in a different direction.

There are some areas that still cry out for need. There isn't anybody who wants to come into an area or a region that has substandard water, substandard sanitary facilities. I make no apology for that because those are circumstances and situations that grew up long before I ever came upon this little globe, and any members of the committee.

We are simply here paying a penalty of years and years of neglect. I honestly respond to you, and sincerely so, by saying that there will be a time in the not-too-distant future, if we are permitted to complete our transportation system, attack the problems of deficiency of our water and our sanitation facilities, that we can become very much an equal partner in the economics of this country.

Mr. CLINGER. One of the main problems of the Federal Government is this $200-plus billion deficit, and we are informed that States are in much better shape financially. What is the situation in West Virginia at this time?

Governor MOORE. I can use a term that I shared with the speaker of my house and the president of the senate, and say that the budget that I presented to them was balanced on the edge of a razor blade, and if we tilt slightly to one side or to the other.

We are not in a position that we fall into the category of having any surplus, the magnitude of which would be even interesting to the committee. We just recently passed legislation to impose an additional burden on the employers in West Virginia for us to wipe out a $308 million debt that we have to the Federal Government in the field of unemployment compensation.

So if you were to look at the balance on our books, we are not one of those that has any manageable surplus that would be attractive to attack in a larger sense any of the problems here.

Mr. CLINGER. Let me ask you a question about the highway program. Do you share the same problem that we have had in Pennsylvania, which is that the year-to-year appropriation process makes it very difficult to accomplish the planning for construction? It has just been very tough to plan and to carry through on the development program for highway construction without 2- or 3-year assurance that the funds are going to be there.

Governor MOORE. Congressman, I used to debate that question some years back in coming before committees of the Congress and make reference to this.

I think that all of us take a great deal of satisfaction in approaching the administration and attempting to get government out of control. In great measure, the way you get government out of control is finish the mission, get it out of business.

We were here 2 years arguing the interstate process, and during that period of time the costs continued to escalate. The situation is the same in these developmental highway corridors in the Appalachian Region Commission. If we continue to delay, the costs and the dollars that are going to be needed to completion are going to be lost to us simply in the inflationary factor.

If we had that privilege of even anticipating, if you could here in the Congress put us in the posture that we could anticipate with some certainty that our allocation would be over a period of 2 years, we can move those highways to completion much faster and at a much cheaper rate. If that opportunity is embraced within the authorizing legislation, if you can give us that 2-year timeframe, or that 3-year timeframe for planning, it would be an important tool for those of us in State Government.

Mr. CLINGER. You will be pleased that last year we did pass for the first time a Federal capital budget requirement for both the Congress and administration. We need to do that kind of forward looking, hopefully, to establish a better roadmap of where the Federal Government is going to be on the whole range of infrastructure needs.

Governor MOORE. I certainly compliment the Congress on that because it is really much needed. We wet nurse the programs. This is sometimes referred to, the Appalachian Programs being wet nursed over a long period of years. The fact of the matter is that we have had to absolutely fight for our life on a year-to-year basis, and you can't plan well under those sets of circumstances.

Mr. CLINGER. Thank you

Governor MOORE. You are very kind.

Mr. NOWAK. Thank you.

Mr. Wise.

Mr. WISE. I think Governor Moore has made the case excellently, and I appreciate his once again being heard.

Governor MOORE. Thank you.

Mr. NOWAK. Mrs. Johnson, do you have any questions?

Mrs. JOHNSON. I just wonder, in planning the first finish-up funding program in 1983, where you are in regard to that original planning for concluding the building of these highways in 1987.

Governor MOORE. We have not moved far enough.

Mrs. JOHNSON. How much has been spent?

Governor MOORE. I don't have the exact figures, but I think $326 million has been spent. My first observation directly applied to your question about the State of West Virginia, but in terms of the total program, we have spent $326 million.

Mrs. JOHNSON. That is about 4 years of the funding that was anticipated.

Governor MOORE. $83.5 billion of appropriations have been put into highways, and it is $326.53 million.

Mrs. JOHNSON. Some of those must have been predecessor moneys actually being spent.

Governor MOORE. It could very well be money in the pipeline.

Mrs. JOHNSON. Do you have any idea of the amount of funds that the affected States have gained from the five-cents-a-gallon gas tax that is, of course, additional highway money that has come in?

Governor MOORE. Not significantly.

Mrs. JOHNSON. I think that it would be useful for us to have, certainly it would be useful for me to know, how much additional money has come to the States, the affected States in the area, through the five-cents-a-gallon tax on gasoline, how much of that money has been used to accelerate these projects that apparently, I would guess, were considered important to the economic development of the States. That is, what realistically you anticipate to get.

I, personally, am not comfortable with the concept of geographic targeting, and much of your testimony affirms my belief that that is an unwise Federal policy. The figures that you have given, for example, in regard to the amount of money that you need to complete certain sewer projects, your ability to meet the needs of young children for preschool exceeds ours. We cannot make the statement that we have educational activities available for every preschool child.

Governor MOORE. The greatest portion of that is from State funds.

Mrs. JOHNSON. That is impressive. I do feel that as much as I am an advocate of a Federal role in economic development, in particular to address the structural change, I also believe that these things have to be provided in an equitable fashion nationally. While you are affected by coal and other things, my towns have been devastated by the loss of the machine tool trade.

I am truly concerned about considering a 5-year reauthorization. I am concerned about our continually pushing off the deadline for the demise of a program that is geographically targeted. I believe that your needs, as ours, should be combined into the Sewer Grant

Programs, the Rural Funding Program, the Community Services Programs, the Day Care Funding Program, and all those things that the Federal Government does, some of which are needed and should be targeted on the basis of unemployment and poverty, public housing, and all of those indicators that we use in some of our programs, and not in others.

I would urge you and the other Governors of the region, as well as others who will testify, to give us a clearer picture of a commitment to complete rather than to extend. I am concerned about the proposal to reauthorize until 1990 a program that is fundamentally flawed because it is geographically targeted.

Governor **Moore**. Let me say that I will accept a 1-year authorization if you will fund it at a level to complete the program. The 5 years are not really that important to us if the dollar volume is there. We are being practical in terms of trying to overcome that type of suggestion in the climate in which we are presently operating.

I appreciate your observations in terms of your philosophy as it relates to economic development. There was a time in this country in which we did take a broad shotgun approach to the economic development of the country, and as a direct result of it, we have the cases that are still in existence today. We complimented that broad approach by a rifle approach in a designated region. We think that if you compare the dollar value with the cost/benefit ratio that has flowed from the rifle approach, it has been much more effective than the broad area economic development theory that we went through on a nationwide basis where the most affluent areas, for example, participated just as much in the distribution of those Federal dollars as the least affluent.

Interestingly enough, there were some observations made in the Federal Cochairman's comments on the IRB's [the Industrial Revenue Bonds.] What you did in adopting that legislation, in my judgment, is that you complement the most affluent and growing parts of the country by the distribution or the allocation of that, and put those that are in the nongrowing areas, populationwise, in a straitjacket, and those that have growing economies, growing populations, get a wide distributive share of the IRB's that have been designated. It should have been a reverse formula.

Mrs. **Johnson**. I agree with you absolutely, and I do think that that was the substance of your testimony. In other words, those things that we know to be effective leverages of growth should be constrained for usage where growth is needed. If we more carefully, consistently, narrow the use of Federal tools, then you would not need to be geographically designated. Your areas of high unemployment would be on the same footing with economically disadvantaged areas in Connecticut.

Governor **Moore**. That is right.

Mrs. **Johnson**. Likewise, Michigan.

I strongly support a national policy of economic development partnership, but I think that it should be targeted on indicators, and have nothing to do with geography.

Governor **Moore**. I don't quarrel with that at all. I think the best effort of the Federal establishment must be in the areas of greatest need. Essentially, adopting that type of formula, if we were to mutually agree upon just simply the language, we would not be at great difference in terms of our approach.

Mr. **Nowak**. Thank you very much.

Doug Applegate from Ohio.

Mr. **Applegate**. Thank you, Mr. Chairman.

I, too, Governor Moore, would like to welcome you and do welcome you to the committee. You have been a friend for a good many years. I know of your record in West Virginia, and your activity with the Appalachian Regional Commission, and your interest in the development of economic development in West Virginia, as well as other States.

I compliment you on your statement, and I agree with what it is that you have to say. The gentlelady from Connecticut was talking about the fact that your program is fundamentally flawed because it is directed to an area. However, we do direct money to areas of people because of a need. Our tax structure is structured as such. We take more from some groups of people, and we distribute on need to the various States. There are debtor and nondebtor States so that everybody does not get the same amount. So that is the way our system works. Being as benevolent as we supposedly are, we distribute our funds based on that concept.

I would say in looking and hearing some of the things that have been said today that while we have had tremendous success with ARC, and I think we have over the past two decades, I think that since 1981, for those in Appalachia, the benefits have declined, not because of Appalachia, but because of the economic policies that have been put into effect. I think they have worked adversely as far as economic development.

I can take a look at my own district. As a matter of fact, I would judge that for the 26 counties in Ohio, we are looking at over 14.5 percent unemployment. Just talking to my friend, Mr. Perkins from Kentucky, he tells me that he is up there considerably higher than that. So that there is a need, and there is very little money back home in order to take care of these problems.

What is going on now is a shift. We want to do away with EDA. We want to do away with ARC. We want to do away with UDAG, to do away with CDBG's, to do away with all of the programs that send money back into local areas. If the people in those local areas want to continue these kinds of beneficial programs that ARC, for instance, has given us, local taxes are going to have to be raised considerably, and there is very little money in those areas for taxes. If you are looking at 14, 15, 20, 25 percent unemployment, it is pretty hard to go back and tell people, "It doesn't matter that you are not working, we have to take money from you in order to plan and develop our local area." It doesn't work that way.

So the Government has to come in and continue to help. We do have to complete the programs, I think you are absolutely right, because we can't get industries into an area where you don't have sewers, where you don't have water, where you don't have highways, where you don't have good, basic educational facilities.

That is why I say that what you have said is just right on target. You are very accurate. I think that we have to continue with the program. I think we have to continue with the EDA Program as well as ARC to help to pump more moneys back into these areas.

The Economic Development Program that the President has put into place, it is helping a lot of the outer-fringes of the United States, but those in the Midwest, and much of the Northeast corridor, as our chairman has stated, it has declined. Unemployment is running just as badly as it was, and we are having a lot of difficulties. I guess, unless you live in these areas, you don't fully understand it.

Frankly, I am scared, and I know that you as a Governor are scared because West Virginia may be hit harder than any other State, and it has been. I don't envy you your position and what it is that you have to do, and the problems that you face. I certainly think that you are facing up to them, and I am glad that you are here in support of this program because I think that it is essential that we see it continue.

Again, I welcome you here, and I look forward to working with you.

Governor MOORE. Thank you, Congressman.

Mr. NOWAK. Thank you very much, Governor.

If we could move along, and go from Ohio back to New York State and my colleague Sherwood Boehlert.

Mr. BOEHLERT. Thank you very much, Mr. Chairman.

You seem to be caught between buzzard and bizarre. You made an excellent statement for very good reasons. Unlike some of my colleagues, I am not uncomfortable with geographically targeted Federal resources to areas of greatest need. If I have problems with my eyes, I go to an ophthalmologist, I target the specialty to the problem.

Let me thank you very much for an excellent statement. I have just one quick question. I am interested in highway traffic safety, and I want you to make it plain without going 185 miles an hour.

Governor, why can't you and ARC, and I think you can and you probably are, through a cooperative effort make sure that the limited resources we are able to make available are targeted to the red areas, and not to white areas. I think the answer is that you are already doing it.

Governor MOORE. Absolutely.

Mr. BOEHLERT. It seems to me that—I am disturbed when people look at a program like ARC, EDA, and UDAG, and say, "Those programs are for all those guys in the East." I say, we are taking the maximum advantage of them because we have the most serious problems, and it doesn't bother me at all that we are doing that.

I am going to ask the same question of Ms. Pizzano, can't we have a cooperative arrangement with the States, with the ARC, which I hope will be continued, to guarantee that the limited funding goes to the areas of greatest needs.

Governor MOORE. We have that in place as a general policy of the ARC. We are asking the participating States to designate distressed county areas. The major thrust, however, in terms of targeting these dollars, rests within the chief executive of the States, and the fact that that burden is there, essentially, is what you are trying to do on this side of the table. Let the heat rest at my desk in terms of utilizing the dollars that you do make available to us to bring about an evenness of the development, so that those white areas are not taking down the largest proportional share of dollars.

I think that is almost a tacit understanding that exists today among the participating States that are involved. I couldn't agree with you more that the utilization of our dollars and the greatest benefits ought to be targeted into the areas of greatest need.

Mr. BOEHLERT. Governor, what was the population change in West Virginia in the last decade?

Governor MOORE. We are stagnant. We were a positive growth area in the late 1960's and 1970's. We took a downturn and lost about 2 percent of our population. Our figure is now about 1.95 million, and we are projected to be on the plus side, as you look in the next decade, but not by any large and significant percentage, somewhere in the area of 2 to 3 percent.

Mr. BOEHLERT. Finally, just let me state that I have long been a fan of yours. When I first came to Capitol Hill 21 years ago, I was administrative assistant to Congressman Al Hurney, who is one of your constituents.

Governor MOORE. He is one of my real, dear friends.

Mr. BOEHLERT. Thank you very much for an excellent statement.

Governor MOORE. Thank you.

Mr. NOWAK. Thank you very much, Sherwood.

We have another member who also has a relation who was here for many years, a greatly admired member. When I came I was also very young, and I met your dad, who was Carl Perkins, of course, from the great State of Kentucky.

Mr. PERKINS. Governor, I would like to compliment you very much on your statement. I keep looking at the red over there. My eyes are just focusing on the red. I think you pretty well understand the problem. You presented the statement quite well.

I do have some questions a little bit later when we get back to talking about the need for continuing the program. I think you admirably have given us reasons why. I am going to hold it to that because I know that your time is limited. I think you made an excellent statement.

Governor MOORE. Congressman, I was a very close friend of your father's. When I came to the Hill, I was the youngest member of my class, so don't let that concern you for a moment as being a burden. We even educated Doug Applegate, and if we can do that, we can do anything. [General laughter.]

Mr. NOWAK. And if you are good, you can come back as a Governor. [General laughter]

Mr. NOWAK. Let me introduce Ed Towns at this time who is from New York City.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Governor, it is always great to have somebody who fully understands our role on this side, so we are happy to have you here, and we don't want to hold you.

I thank you for an excellent statement. One of the reasons why I support this program is because of the targeting aspects of it. I think that it is important that we go to the areas that have the greatest need. I think that that is fair and the way we should do it. I believe that if we want to stabilize any kind of area, State or community, we must have a targetted program.

Thank you very much for your very fine statement.

Governor MOORE. Thank you, Congressman. I appreciate that very much

Mr. NOWAK. Last, but certainly not least, the gentlelady from Maryland, Mrs. Helen Bentley, who is a new member on this committee, but not an inexperienced member in the Federal partnership with the States.

Mrs. BENTLEY. Governor, I remember well when you were elected Governor the first time, and when I was on the other side of the table.

I was interested in two points in your statement. No. 1, on the number of manufacturing jobs that you have established along the corridor. I am very interested in that particularly because I am so concerned about the decline in new manufacturing in the United States. I think that has got to be a plus for what has been accomplished in that area.

As you know, the Port of Baltimore is not in my district, and three of the counties in the Appalachian corridor are in Maryland, but again not in my district. We, in Maryland, are all working together as a united delegation, so we are all planning for each other.

The Port of Baltimore depends a great deal on coal moving from West Virginia for export. You say in your statement that the ARC has some programs that will help the transportation of coal. I am curious. Coal moves primarily by rail, how do the ARC Programs help?

Governor MOORE. The end result for the export of coal into the export markets does move essentially by rail, but there is a transition occurring in the coal mining in this country, particularly in Appalachia, and that is that we rely a great deal upon the transportation system to move the coal either by barge, or rail, or other facilities.

In this period of time, the industry of the past, coal mining was controlled by perhaps a half-dozen of large coal-producing identities. Today, the greatest part of that production is moving out of contract mine operations that, granted are working on properties owned by large coal-holding identities, but nevertheless the road system and the access, and the transportation system afford you the opportunity to move that coal. In Congressman Perkins' area, you are moving that coal by road as much as 35 miles to move to a railroad system.

It is absolutely essential that the transportation, the method of egress and ingress, has got to be provided to the region. If it is, I am satisfied that the region will regenerate itself.

Mrs. BENTLEY. One remark you made is that coal will be able to be brought to the marketplace at competitive prices.

Governor MOORE. Yes.

Mrs. BENTLEY. That is particularly significant. I was involved in export before I came to the Congress, and I found it very difficult at times to do anything on coal from the United States because of our pricing, transportation being a major part of that pricing, both the truck lines that you are talking about and the rail lines.

Governor MOORE. Yes.

Mrs. Bentley. Have you ever sat down and talked to the railroads serving the West Virginia area about coming down on prices for rail to the port areas?

Governor Moore. Might I suggest that in order to regenerate the export market for eastern coal, this is an absolute necessity. We are about $8.00, perhaps $10.00 maximum, out of the world marketplace in terms of coal. There isn't any question about the qualitative nature or the chemical composition of this coal. It is fair to say that it is the finest coal in the world today. There isn't any question about the international markets wanting this, but they cannot justify an additional $8.00 to $10.00 per ton of coal.

I think that there has to be a combination of elements, though. When you say, "Talk to the railroads," I think that that is one component. I believe that I have to talk to the producers of coal. I have to talk to the United Mine Workers. I have to include the government of the State of West Virginia. It is our approach that we will have a conference of transportation identities, operators, union members, as well as the State of West Virginia, to attack this question of coal pricing.

We think that each of these components has to make a contribution toward reducing the price of coal to the export markets. We have lost a great deal of our export markets, as you well know, and we utilize not only the Port of Baltimore, but the vast facilities in Virginia, and now somewhat the ConRail facilities in Philadelphia Port 123, and Port 124, which are important adjuncts to the international market.

As long as we are in this position of being out of pricing——

Your question brings me to the suggestion of whether or not the Congress should not review the Staggers Act, and the full implications of the pricing structure that you envisioned by deregulation of the railroads, again, whether the congressional intent as you had envisioned it in that particular act has actually transferred itself into a more competitive marketplace.

Today, we are moving coal from the southwestern portion of West Virginia to your Port of Baltimore and the pricing structure is $17.50 per ton, and it is the same railroad, the same rail cars, and in some instances it is the same engine, that have been hauling it for 25 years.

Mrs. Bentley. My comment there, Mr. Chairman, is that the ocean rate on that going 3,000 or more miles is somewhere between $6 and $10.

Governor Moore. Ten dollars is the maximum.

Mrs. Bentley. Yes.

Governor Moore. As you will learn, Congresswoman, you ask me a short question, you get a long answer.

Mrs. Bentley. That is all right, it is important.

Governor Moore. I do very much want to involve the railroads, and all the other entities.

Mrs. Bentley. I am glad to hear of your approach on that.

Mr. Chairman, this, I think is extremely important in improving our balance of trade. Coal, like our farm exports, is one of the chief commodities we have for export today. What I know of ships that are going out of here half-loaded, we are going to fight for that 50-foot channel, this will help you, too, Governor.

But having to go to South Africa to finish off their loading, we are losing that business here. I think this committtee really needs to get into that.

Governor **Moore**. There is a very, very significant question in the international coal marketplace that is coming onstream today, and that is the development in Colombia. All of that coal is going to compete against Eastern coal. That coal is going to move into the Caribbean Basin at an even greater cost disparity than Eastern coal. If we are going to compete against in the international marketplace that which is presently mined in South Africa and other places, we have to anticipate what is going to hit again the Caribbean Basin for international shipment, and we have got to get our house in order and be prepared for this, and that we want to do, Mr. Chairman.

Mr. **Nowak**. Governor, thank you very much for your statement. It certainly makes a good point. Perhaps you can give us a more definitive breakdown of the kind of costs that are involved in the transportation of coal. We could coordinate, perhaps, as I envision, after the budget crunch is over, some of the ideas that have been put forth, and try to use this committee as a catalyst for economic development.

Perhaps it won't be a funding mechanism from this committee, but a mechanism for coordination of other committees' work, such as the Highway Program, and maybe we can motivate different committees to look at funding some of these very necessary items to be competitive.

This happens to be in the coal area, but perhaps there happens to be a steel process that could come forward. If we could target this, as a Federal coordinator, and as others on the committee have mentioned, into certain areas then we could have a much bigger impact than is possible with the funding of $200 million we have in EDA, or the $150 million that we have for the ARC. I hope that this is what we can do on this committee, and if we can, I think we will have that Federal presence to try to make adjustments for what I foresee is going to become a much, much larger problem, and that is the trade imbalance. Because we are not competitive, because we can't get the coordination between the local, the State, and the Federal resources that are available. There is no one there to pull that together and say, "If this piece is taken, and that piece is taken, and this other piece is taken at the Federal level, then we can get a contract at the international level, and it will all flow." That is uncoordinated now, and it is done on an ad hoc basis. This is one of the great challenges that we are going to have on this committee, looking at those kinds of available resources.

In the meantime, I want to thank you for your time. I know that travel is hard to fit into your schedule, and we appreciate it. I think that you have made an excellent statement.

Governor **Moore**. Thank you very much, Mr. Chairman.

Mr. **Nowak**. At this point in time, I would like to bring back our first witness, Mrs. Pizzano.

I thank you for the time given to the Governor, and I am sure that we have benefitted from his testimony. Some of the points that you have raised, I don't think are contradictory necessarily to what the Governor was proposing, and it would in some ways give us a better functioning commission and a better program if we could resolve some of these problems and bring it all together.

One of the areas that you have talked about was targeting. As we went through the different proposals in the existing law and in H.R. 10, we got a lot of agreement that if there was a political and bureaucratic avenue with a much better approach to economic development, perhaps we could even erase some of the problems that people have had with this program.

You mention in your testimony the enterprise zone concept which the President has come forward with, although there are problems that have been raised with that enterprise zone concept. Perhaps we could take out some of the competitiveness that was suggested by the administration's plan, and the criteria for putting in 1 of 30 districts into an area, and look at pure need on the basis of unemployment, and then mandate that some of the other Federal programs be used for infrastructure to help develop that enterprise zone. It could also provide something that you highlighted in your testimony, and that is capital shortfall in the areas, and I am speaking about seed capital, for a complete economic development plan for an area must have all the pieces there.

As we were just talking with Mrs. Bentley, it is one thing to produce high-grade coal, but if it cost too much to get it to the market, and you have rail problems, and everything else, it is not going to happen. I think the enterprise zone is going to be a complete package, and you might be able to have a greater impact. I am wondering if that is what you have suggested in the broad-based testimony that you have presented.

Mrs. PIZZANO. I think that if you target enterprise zones and identify or define them, along with other Federal and State programs, I think that you will address some of the problems that I see with the Appalachian Region.

As to whether or not all areas of the region are in need, I will provide the data to the committee, and you can make your own decision as to whether or not funds are available where there is no need.

[The following was received from Mrs. Pizzano:]

APPALACHIAN UNEMPLOYMENT AND DISTRIBUTION OF FUNDS BY APPALACHIAN PORTION OF STATE

STATE	1984 UNEMPLOYMENT RATE	FY' ALLOCATIONS HIGHWAY	NONHIGHWAY	ALLOCATION SHARES
Alabama	11.4 %	$ 9,840	$ 3,690	10.06 %
Georgia	6.0 %	4,272	2,299	4.88 %
Kentucky	12.4 %	12,042	5,364	12.94 %
Maryland	10.1 %	4,573	1,301	4.36 %
Mississippi	10.5 %	4,759	2,492	5.39 %
New York	7.0 %	7,351	2,029	6.97 %
North Carolina	7.1 %	3,048	2,822	4.36 %
Ohio	12.2 %	3,128	2,435	4.13 %
Pennsylvania	11.3 %	17,164	4,150	15.84 %
South Carolina	6.7 %	1,430	2,011	2.55 %
Tennessee	10.3 %	8,722	4,767	10.02 %
Virginia	9.4 %	3,136	2,079	3.87 %
West Virginia	15.0 %	15,035	4,561	14.56 %
U.S. NATIONAL AVERAGE	7.4 %			

Mrs. **Pizzano**. I think the funds should not be available to all areas, they should be more targeted. If there are funds, they should be made available on the basis of some criteria. Other programs could have some targeting mechanism or some coordinating mechanism where they are directed toward more distressed areas.

Mr. **Nowak**. I think you also make a good point in your statement where you talk about areas of opportunities. We know that all the subregions that are listed on your map throughout the country are not "equal." They have different natural resources, and certainly different human resources in every area. The opportunity for development may come, perhaps, in the area adjacent to a very distressed area, where the opportunity and the growth possibility, and interest in an entrepreneur expanding or moving into an area and starting a new business, may be for natural resource reasons and so forth.

The coordination of the most distressed with perhaps the less distressed communities, and cooperation between those areas could perhaps move a certain type of work, or a training facility into an area. In the total concept that I am trying to bring about, that coordination would be available, which I am not so sure that it is today. I think that some of your criticisms go to that point.

Mrs. **Pizzano**. I think that one of the problems is, even though at ARC we are organized at several levels to address exactly that kind of a problem, we still have our projects coming from the counties, and the counties are very territorial in terms of whether they think that they need a water and sewer system as opposed to the people next door. Those decisions are made at the local level, but there is obviously some sharing of funds.

Mrs. **Johnson**. Mr. Chairman, may I ask a question?

Mr. **Nowak**. Sure.

Mrs. **Johnson**. That is the only State completely within the region. What is the relationship between, for instance, your use of funds for sewer treatment plants and the State priority list that must be part of the allocation of funds that come down via the Federal Sewer Grant Program?

Mrs. **Pizzano**. The decision is made by the Governor's office.

Mrs. **Johnson**. So the Governor's office actually makes the decision both about the expenditure of sewer grant funds and the expenditure of any of your funds that go to that purpose.

Mrs. **Pizzano**. Yes.

Mrs. **Johnson**. How do you justify the administrative costs of bureaucracy if he is already doing it? The local communities are deciding what projects they want, they are putting them up competitively, and the Governor is deciding.

Mrs. **Pizzano**. We have this great partnership. The Federal Government, obviously, has some input into the policy of the States. The decision is not made alone, there is a signoff at the Federal level by the Federal Cochairman generally associated with whether or not they cross the "t's" and dot the "i's."

Mrs. **Johnson**. You spend money on sewers and there is a State/Federal mechanism. You spend money on highways, and there is a State/Federal mechanism. What moneys do you spend for which there is not an analogous Federal program for which there is not an analogous Federal/State administrative funding mechanism for the receipt of projects, the evaluation of them, and the priority setting in the allocation of funds?

Mrs. PIZZANO. By and large, our projects are parallel—not parallel on every single project, but parallel, in general, to projects that could be funded from other programs, but ARC funds are geographically targeted. Our funds seldom provide all of the funding. They generally supplement the Federal grant funds, thereby reducing the local match portion of the project.

Mrs. JOHNSON. ARC funds can be used for the local match portion?

Mrs. PIZZANO. ARC funds can be matched to Federal funds. We require a non-Federal match also, but what happens generally is that the ARC funds are part of the larger package.

Mrs. JOHNSON. And they are generally the local match?

Mrs. PIZZANO. No, there is a local match. There has to be a 20 percent local match. It is not necessarily tax funds, but it has to be by law 20 percent.

Mrs. JOHNSON. From your experience, what would be the disadvantage of simply increasing the funds for your State in those categorical areas to reflect the areas of high unemployment and distress?

In other words, if the funding mechanism were that your funds were expanded to the same dollar amount to address the governmental functions of your distressed areas, what would be the disadvantage in having them come down that way?

Mrs. PIZZANO. Targeted——

Mrs. JOHNSON. Come down through the established Federal programs, but in greater quantity to reflect your criteria?

Mrs. PIZZANO. I have no problem with that.

Mrs. JOHNSON. I think that we really have to ask ourselves if there is any advantage to the money that we are spending if we send money around the barn when we already have the mechanisms to send it right to the cows now. Then we have to ask ourselves, second, whether that cow is in the same state of malnutrition as other cows or whether all the cows should have access to the same bottle.

I think that those are questions that we cannot avoid here, and I am strongly sympathetic to those red areas. I want to see them get every bit of aid that we can afford in our Nation to provide them. I agree with your testimony, and the Governor said the same thing, the goal is to stimulate the development of the private sector, and to assist in this very important process of structural change. There is a perfectly legitimate and needed Federal role in my estimation, but we don't ask ourselves, what is the value of funding. What is your administrative budget for all the States combined? How much of ARC's money goes to pay the cost of delivering the dollars?

Mrs. PIZZANO. About $4.5 million in Federal funds.

Mr. NOWAK. So you are talking about a little less than 10 percent for the administration of the program.

Mrs. JOHNSON. The fact is, with that amount of money, you almost certainly would not have to increase the number of personnel at the State and local levels because they are pretty much considering the same projects. We really have to ask ourselves how much bang we are getting for these bucks.

I appreciate the thoughtfulness of your testimony in putting in IRB's, and the enterprise zones within my district. I represent a city that is an enterprise zone in a State that has enterprise zone legislation, and in 1 year we attracted $14 million in investment in a city of 70,000.

If we really are going to talk about red areas, we have to begin to develop, as the chairman is interested in doing, a more integrated and coordinated policy for funding a lot of different projects. I appreciate your help, Mr. Chairman.

Mr. NOWAK. Thank you very much.

Mr. Clinger.

Mr. CLINGER. Thank you, Mr. Chairman.

We have talked a lot about to what extent the funds are targeted to most distressed areas, the most needy areas in the region. Governor Moore testified that there is a procedure or a test to ensure, in fact, that the funds are going to the most distressed areas.

Is it true that in the selection process the rate of unemployment, the level of per capita income, the traditional factors that we look at to determine areas of distress, are taken into account, and it is only those areas in distress that have benefitted from the projects?

Mrs. PIZZANO. Let me answer that in two parts.

First of all, there is nothing in our legislation or code that requires that unemployment or other factors be taken into consideration. In fact, we have followed in the past a growth area policy.

The Governor was referring to the Distressed County Program, which is a set-aside program for 74 counties in Appalachia who have particularly high unemployment, a high poverty level, high infant mortality, and low income criteria, where we are setting aside money to pay for basic services. It is the Governor's decision, and the governor's finishup program.

In the last few years, we have spent about over $30 million on those particular counties.

In general answer to your question, we do not particularly target distressed areas.

Mr. CLINGER. Could you provide us for the record occasions and what percentage of the resources have in fact been targeted to distressed areas.

Mrs. PIZZANO. Certainly.

[The following was received from Mrs. Pizzano:]

DISTRESSED COUNTIES—CRITERIA AND FUNDING

ARC currently has 74 counties out of a total of 397 counties that are designated as distressed. The criteria is a combination of: per capita income, unemployment—3 years' average, poverty level, and infant mortality.

In FY 1983, $17.9 million was spent in 93 area development projects. This accounts for 10.2 percent of all funds approved including highways and about 30 percent of nonhighway funds.

In FY 1984, $15.1 million was spent in 101 area development projects. This accounts for 9.5 percent of all funds approved including highways and about 31.5 percent of nonhighway funds.

Mr. CLINGER. One of the things that we have done in H.R. 10 with the EDA Program is to put greater emphasis on a tool that has proven to be effective, which is the application through title IX of the existing legislation, that is the development of revolving loans and the ability to provide for incubators, et cetera.

Has this device been utilized to any great extent through ARC, the setting up of revolving loans or funding of incubator projects?

Mrs. PIZZANO. Our legislation prohibits us from providing any funds for any profitmaking entity. However, we have a $3 million energy exclusion, which we have utilized in particular one in the State of Pennsylvania to fund revolving loans and for incubators.

We have spent most of the $3 million.

Mr. CLINGER. But all of those incubators must be energy related.

Mrs. PIZZANO. Right.

Mr. CLINGER. You have no authority to become involved with incubator projects that would have purposes other than energy development.

Mrs. PIZZANO. That is true unless some of our funds associated with the incubator are energy related.

Mr. CLINGER. And is that restriction carried over in the H.R. 10?

Mrs. PIZZANO. I understand that it has been removed. Section 208, apparently, removes it, and that would give us a great deal more flexibility.

Mr. CLINGER. It would give you greater flexibility.

Mrs. PIZZANO. Yes.

Mr. CLINGER. In terms of revolving loans, you are saying that your limitation is that to establish a revolving loan program, it must be energy related or to establish an incubator that is energy related.

Mrs. PIZZANO. Both, because revolving loan funds would provide funds to profitmaking institutions, and that comes under the same exclusion.

Mr. CLINGER. Of those incubators where you have provided assistance, which you say are primarily in Pennsylvania, what is your assessment of that as an economic development tool?

Mrs. PIZZANO. I think that part of the diversification argument is that we have to create environments where small business can grow, be fostered, and stay, not go out of business by using revolving loan funds, incubators, and a variety of other kinds of development activities to encourage and foster that environment. So I am positive on that particular approach.

Mr. CLINGER. How does the absence of a long-term highway program affect the completion of the Appalachian highway system?

Mrs. PIZZANO. There is a long-term plan, and the problems are associated with whether or not Federal funds for this particular Appalachia Highway Program are available. Obviously, the Governors have a problem with their planning because they continue to depend upon this funding being available.

Mr. CLINGER. Are the States using their complete allocation?

Mrs. PIZZANO. Yes, they are using it.

Mr. CLINGER. So the Governor's comment that there is a very real need for some assurance of continuity for whatever program if there is a valid one?

Mrs. PIZZANO. I think they have assurance from the administration that we will not continue to propose the funding.

Mr. CLINGER. So they have assurance of sorts.

We thank you very much.

Mrs. PIZZANO. Thank you.

Mr. NOWAK. Thank you.

Nick Rahall from West Virginia.

Mr. **Rahall**. Thank you very much, Mr. Chairman.

Mrs. Pizzano, I appreciate your testimony this afternoon and this morning. I know the subcommittee has already heard from my Governor, Arch Moore of West Virginia, who has testified about the Appalachian Highway System. To follow up on the final question of Mr. Clinger, the Governor stated in his testimony that 147 miles of that highway system in West Virginia have not yet been completed, and he stressed the need to expand our markets in southern West Virginia, especially in such an energy-rich region of our Nation, and our desire to get from Charleston to the southern part of our State and into my colleague, Chris Perkins' district, and even further. One of the goals that we have in my district, so rich in coal mining, is completion of that corridor system.

Do you really believe that if the ARC were to be terminated as the administration is proposing that this system could be completed under the financial conditions that exist in the State of West Virginia today?

Mrs. **Pizzano**. There would have to be some awfully tough decisions made in West Virginia.

Mr. **Rahall**. We have been and are making those tough decisions today. However, to me it appears, and I would appreciate your comment on this, that there was a commitment made by our Federal Government to build this Appalachian Highway System. There is not much that one has to go on with certainty in this town, but one's word or one's commitment. Don't you see this as reneging on a commitment that was made by the Federal Government to the States of the Appalachian Highway System?

Mrs. **Pizzano**. The administration felt that there was a commitment to complete the unfinished projects, per se, not the whole system, as well as to pay back prefinancing, and it did agree to a $320 million appropriation over the last 3 or 4 years. We feel that that addresses that commitment.

Mr. **Rahall**. How do you feel a commitment to the Appalachian Regional Corridor System differs from the commitment to the Interstate system? Do you see any difference in those commitments?

Mrs. **Pizzano**. I really can't comment on that because things change. I think that we have another $2 billion worth of highway funds going from the Federal Government to the States which could be used in some of the States to help the Appalachian Regional Corridor System. I think that the system will be completed. It is part of the primary system, and eventually many of those roads will be built.

Mr. **Rahall**. So back to the corridor system, you feel that the State of West Virginia is going to have to make some tough decisions if it is to be completed. Under the administration's proposal, then, it will not be completed.

Mrs. **Pizzano**. It will not be completed with set aside funds in the Appalachian High Program.

Mr. **Rahall**. I have no further questions.

Mr. **Nowak**. Thank you very much.

I am going to turn it over to Mrs. Johnson for one further question.

Mrs. JOHNSON. You spoke earlier about allocating funds on the basis of growth potential. Could you explain the basis on which you determine growth potential, or do you have some written policy by which you determine growth potential?

Mrs. PIZZANO. I would like to provide that for the record.

Mrs. JOHNSON. I would very much like to have that.

[The following was received from Mrs. Pizzano:]

ARC GROWTH AREA STRATEGY

The growth area strategy and criteria are defined in the ARC Code Section A1-4.3, copy attached.

The growth area strategy and criteria have been implemented by the Appalachian states over the years as part of their continuing planning process. The specific criteria for delineating growth areas have been developed and continuously revised in light of new and emerging socio-economic changes in each of the states. The Appalachian states, from the early days with assistance from ARC staff, developed their own growth area strategies to suit their unique geographic and economic characteristics.

The ARC strategy of concentrating most of its investments in areas with potential for future growth, as well as in areas geographically well situated to serve the region around them, worked well for the region. Appalachia's population is still only 50 percent urban as compared with the U.S. as a whole, which is 74 percent urban. There are 30 metropolitan areas in the Appalachia region.

ARC's challenge from the start was to avoid investing all of its resources in few metropolitan ares, which were economically large enough and diversified enough to grow without much of ARC's aid. On the other hand, ARC avoided investing all of its resources in rural and sparsely populated areas where the needs are many and the impact is small. ARC's strategy of delineating a hierarchy of areas where different types of investments are made to suit different size configurations and long-term economic development needs was successful. Just as an example of the small-size and medium-size growth areas and how they grew over the years, the following is a selected group of such growth areas with their 1960 and 1982 populations.

	1960	1982	Center Growth	Area Growth
Decatur, AL	29,200	41,900	+43%	50%
Carrollton, GA	10,970	14,900	+36%	62%
Somerset, KY	7,100	10,800	+52%	34%
Tupelo, MS	17,200	24,700	+43%	65%
Athens, OH	16,400	20,300	+24%	23%
Gaffney, SC	10,400	13,400	+29%	20%
Tullahoma, TN	12,100	16,200	+34%	40%
Cookeville, TN	7,800	21,400	+174%	60%
Morgantown, WV	22,500	28,500	+27%	41%

Excerpt from ARC Code

Section A1-4.3 Identification fo Growth Areas and Special Development Opportunities in State Decelopment Plans and AAPs.

(1) Growth Areas and Special Development Opportunities.

(a) Section 2(a) of the Act provides that public investments made under the Act shall be concentrated in areas with a significant potential for future growth where the expected return on limited public dollars will be the greatest. Section 224(a) stipulates that one of the criteria to be considered in giving assistance under the Act is the relationship of a project to overall regional development, including its location in an area determined by the state to have a significant potential for growth. It is the responsibility of each state to describe its methodology for growth area identification and to identify specific growth areas in its State Development Plan. In developing its methodology, the State shall follow the provisions of Section A1-4.3(2) below. In conformance with the states' methodologies and the criteria in Section A1-4.3(2) below, states may provide for local development districts to identify growth areas in their AAPs as provided in Section A1-5.

(b) Through a set of concentrated investments, policy decisions and other activities, it may be possible to capitalize on a specific development prospect and opportunity not located within an existing designated growth area. It is the responsibility of states to describe the criteria required for designation of such special development opportunities and to identify specific cases of special development opportunities in their State Development Plans. In developing the criteria and in making designations, states shall follow the provisions of Section A1-4.3(4) below. In conformance with state criteria and Section A1-4.3(4) below, states may provide for local development districts to identify specific development opportunities in their AAPs as provided in Section A1-5.

(2) Identification of Growth Areas. In the identification of growth areas, surrounding areas and other special service areas, the following definitions and criteria shall be used:

(a) Growth Areas - General. Growth areas--areas with significant potential for future growth relative to other areas in the Appalachian portion of the state--are characterized by social, economic, demographic, and physical conditions which, when combined with concentrations of public and private investments, have the highest potential for economic growth and development. Such growth areas have two geographical elements: a center or centers and a surrounding area which is linked to the centers.

(b) Definition of Center. The term center refers to a complex consisting of one or more communities or places which, taken together provide or are likely to provide a range of cultural, social, employment, trade and service functions for itself and its surrounding area. Though a center may not be fully developed to provide all those functions, it should provide or potentially provide some elements of each and presently provide a sufficient range and magnitude of these functions to be readily identifiable as the logical location for service to people in the surrounding area.

(c) Ranking of Centers. The growth potential among centers may vary significantly, and centers may be so classified depending upon their inherent growth potential as well as the range of services provided to the surrounding area. States may identify different categories of centers and may establish appropriate development strategies for each category with corresponding program emphasis.

(d) Key Relationships of "Linkages" between Centers and their Surrounding Areas. In determining and identifying growth centers and the surrounding areas which are associated with them, the linkages may be ascertained by such functional relationships as employment and commutation patterns; wholesale trade services; educational and cultural services; professional services; governmental services; natural resource and topographic considerations; and transportation networks.

(3) Special Service Areas. A significant percentage of the Appalachian Region's population live in rural, isolated areas with limited growth potential. Where such isolation exists and where services cannot be efficiently provided from a center, a state may develop plans to make accessible those types of services necessary to the enhancement of the overall development of the Region such as health and education services. The plan must clearly demonstrate how this will be accomplished and that investments in such areas will provide services, designed to be part of an organized networkk of services, to concentrations of people from efficient central locations, where possible, and that they will bear a reasonable relationship to the proportion of the state's Appalachian population living in them.

(4) Identification of Special Development Opportunities.

(a) Definition. A special development opportunity is an area or situation whose characteristics indicate that through a set of concentrated investments, policy decisions and other actions, the potentials of that place or situation for the stimulation of economic development or a significant contribution to the economic development of the Region can be realized.

There is evidence of a drastic change in conditions affecting the area, presenting a compelling argument for the opportunities and prospects perceived (e.g., a change in national demand, a major public or private investment commitment), and evidence that the proposed investments will improve, on a continuing rather than temporary basis, the opportunities for employment and the economic and social development of the area.

There must be evidence of financial commitments and management capabilities to carry out the development program plan for the area.

Special development opportunities should be cost-efficient (the estimated impact and contribution to economic development should justify giving special consideration to the area or situation and the magnitude of the proposed investments necessary to realize that potential) and shall utilize the least costly available methods for capitalizing on the opportunity.

Special development opportunities normally occur as a result of a significant stimulus to the area such as a major public or private investment, but may occur as a result of changed conditions outside the immediate area but whose impact will be felt within. Significant impacts outside the immediate area of a special development opportunity may occur. Projects located in these areas are also eligible for funding. The Commission finds that the following situations may be considered special development opportunities:

(i) The Hard-to-Reach. Situations where there is an acute need for the provision of basic human services or related facilities to people in remote and hard-to-reach areas who are unserved or underserved.

(ii) Energy Impact. Situations which will require added community facilities or services as a result of major activities associated with energy development.

(iii) Emerging Small Communities. Situations where opportunities and public service demands exist or will be created as a result of a significant stimulus such as a major public or private investment either within the immediate area or impacting significantly upon it.

(iv) Communities Experiencing Economic Decline. Situations which will result in a significant loss of jobs because of a community's inability to retain existing industries.

(b) Certification. Under the Appalachian Program, special development opportunities as defined above may be certified by criteria in an approved State Development Plan and be the result of identification and justification undertaken at the state level or as a part of the Areawide Action Planning process by an LDD. Special development opportunities may be identified within a State Development Plan or may be submitted by the states for approval by the Commission under the Section 303 process.

Mrs. Johnson. What portion of the funds is allocated on the basis of distress criteria, and what portion is allocated on the basis of growth potential, and how do these two sets of criteria relate?

Mrs. Pizzano. Of nonhighway funds, approximately 30 percent.

Mrs. Johnson. Of the rest, do you have discretion or do you generally follow this policy of looking for economic growth potential?

Mrs. Pizzano. That is the Governor's policy at this point.

Mrs. Johnson. Thank you, Mr. Chairman.

Mr. Nowak. Thank you.

Chris Perkins of Kentucky.

Mr. Perkins. Mrs. Pizzano, it is good to see you again.

I want to go beyond what you are talking about in terms of eliminating the program. Let's just go ahead and think that we might have no money there sometime in the future. Given the fact, that we will go ahead and have this program funded this year, we will obviously want to continue on. I was interested by your idea in terms of economic diversification, which I consider to be a cornerstone of the future of this region.

What particular plans are you looking at for seeing economic diversification, and are you going to use a seed sort of industry, or are you going to be concentrating on the basis of trying to get the infrastructure there so that you can hopefully see, such as when you are on Route 23, springing up by the side of the highway as you are going along, and that in itself will set up a position whereby we will have a takeoff in private industrial development and it will do what is necessary.

What are your thoughts along those lines?

Mrs. Pizzano. One of my problems in dealing with how the money has been spent in the past, to be honest with you, is that I don't understand why there has not been more diversification.

Mr. Perkins. I don't either, I agree completely.

Mrs. Pizzano. I think the Governors' plans in their States at this point is to encourage diversification. Everybody recognizes that it is a problem and talks about it, but we don't see anything being done about it, it doesn't happen.

Mr. Perkins. We are not doing anything about it.

Mrs. Pizzano. I think that they are trying to provide the infrastructure and the highways.

Mr. Perkins. We have to have that first.

Mrs. Pizzano. I hope that it flows from infrastructure particularly in West Virginia and in Kentucky. I do not know why we have not been able to have more diversification. It probably has something to do with the boom and bust psychology of coal.

Mr. Perkins. I think you are right. I wonder, though, since 2 years ago on Christmas we didn't have water in my house, I turned to my father and I said, "Daddy, could you please give me some water for Christmas?" [General laughter]

You have these sorts of things and you live like this, everybody in town does. In the region, you have this kind of a problem on a consistent basis, and you have to kind of grapple with that sort of thing first, don't you think?

We have some areas in Kentucky now that are able to have industrial development. We have the water, we have the sewerage, we have the land, we have the electricity, and we have the vocational schools. I can think of a particular area, an area in Johnston County comes to mind right now, but these areas are very few in terms of great injustrial development. Most areas are more akin to some of the things that we see like in my home county where we don't have the water system that operates effectively. This still seems to be a prevalent situation across most of my area. Don't we really have to have some sort of continuation of this program from out the 1960's, as you phrased it earlier, with still some of the same priorities, to try to deal with these things before we can get in shape?

I think that there are some areas that are in shape to move into the economic diversification, that is the next step, I think, but don't we have to continue these programs first, and get that sort of infrastructure?

Mrs. PIZZANO. I don't think that there are going to be funds available for wall-to- wall improvement in Appalachia or anywhere else in the country. I think the growth area policy was one that was developed 20 years ago with a lot of thought, and I would suspect that the stated economic policies will continue and the growth areas will continue to be encouraged and supported, and people will have to move or drive to work in those areas.

Mr. PERKINS. Of course, they have.

Mrs. PIZZANO. They are right now. I am the daughter of an outmigrant.

Mr. PERKINS. Getting back briefly into the economic diversification issue. In terms of economic diversification, what would you propose that we do there?

I have listened to the enterprise zone concept, which I think is an excellent idea in terms of developing private industry. We don't have much capital there. We don't have the capital that is necessary to begin industrial development in the private sector. We have not in the past had the particular opportunities or infrastructure to attract capital into our area to make them want to locate there so we could have industrial development.

What sort of propositions would you suggest that we go about in terms of attraction of capital, seed money, trying to get into different sorts of industries? That is what we have to do in the areas that we have ready for development, don't you agree, and how will we do it?

Mrs. PIZZANO. It is hard to compare Pennsylvania to Kentucky, but the State of Pennsylvania has a program, and I recommend this program at least in its theory to rural areas. Their program is organized to set up small businesses, and to encourage the development of small businesses and to keep them there, using the people that are already there. That program is done with what they call "one stop shopping" for small business through their local development districts. They have a revolving loan fund. In many cases, there are incubators or access to incubators. They have technical assistance teams available. They have people available to help them preparing applications for capital outside of Pennsylvania.

The State itself has contributed substantial sums of money to it. They have passed a bonding authority. They have put several million dollars into a technology transfer program called the Ben

Franklin Partnership so that you can spin off small companies from major research institutions.

They have for the past 3 or 4 years recognized their structural unemployment problem, and they have made an attempt to address it. There are no results from it right now, other than to tell you how many small companies there are as a result of their efforts. I can't tell you if they are still there and are going to be there 5 years from now.

Mr. **Perkins**. How many seed companies are you getting into the areas with that sort of program, out of curiosity?

Mrs. **Pizzano**. I am going to provide that and the information on the Pennsylvania program for the record.

Mr. **Perkins**. I would be interested.

[The following was received from Mrs. Pizzano:]

Small Business "Seeding"

In the past few years the Commission has assisted eight incubator projects in three Appalachian states. These incubators are home to 50 new or expanding small businesses, with from one to nearly 100 employees. Seven of these incubators, with 38 businesses, are in Pennsylvania.

Fast growth is a characteristic of many small businesses in these incubators--a company that began the year with two employees ends the year with 27; another grows from 4 to 28 employees, another from 35 to 45, and so on.

Of course, incubators are not the only way that the enterprise development program "seeds" small businesses. Last year, Pennsylvania's program assisted some 868 small businesses with a wide range of activities from development financing to export development, assistance with writing business plans, procurement contracting, or even resolving zoning disputes.

ARC Assisted Incubators

The following are ARC assisted incubators, all in operation at the present time. It should be emphasized that the program is only two years old, and therefore, we expect business and employment expansion to begin from here on.

1. Wexford Incubator, Pittsburgh, PA. (Part of Southwest Pennsylvania Enterprise Development Program)

   ARC Grant: $304,000

   Firms: Superior
   Luft Industries
   Servenetics
   American Starter
   ARBE
   Delex Corporation
   Yeardon Corporation

2. North Central Multi-Tenant Industrial Complex, Ridgway, PA. (222,500 sq. ft. building)

   ARC Grant: $221,000; $110,953

   Firms: Flitchwood
   Ridgway
   J.D.D. Fabricators
   D & K Company (April, 1985)

3. Meadville Incubator, Crawford County, PA. (34,000 sq. ft.)

   ARC Grant: $100,375

   Firms: Devonian Well
   Eastern Drilling Mudd Services, Inc.

4. Girard Incubator, Erie, Erie County, PA. (300,000 sq. ft.)

   ARC Grant: $125,000; $59,000

   Firms: Wolfe Precission
   Computer Association of Erie
   American Plastics
   Paragon Packaging Co.
   Erie Bronze
   M & M Fabricators

4. Girard Incubator (continued)

Firms: Comptech
Morlight Equipment
Erie Powder Coating Technologies
Grimm Industries
Westminster Manufacturing
Lake Erie Electric
McMannus Engineering

5. Warren Retail/Commercial Incubator, Warren County, PA. (15,400 sq.ft.)

ARC Grant: $53,625

Firms: Chatauqua Music
George's Snack Bar
Pictures Plus
The Book Shop
New Beginning
Knack Pots
New York Life Insurance

6. Greenville Area Industrial Incubator, Mercer County, PA. (24,000 sq.ft.)

ARC Grant: $125,000

Firms: Contour Form Products

7. NY-6129 Broome County Industrial Incubator, Johnson City, Broome County, NY. (28,000 sq.ft.)

ARC Grant: $100,000

Firms: Innovation Association
Chem-Tech
Ramp Industries
E & S Specialties
Performance Tool & Aerospace
Sturgus Electronics

8. New Castle Area Incubator, Lawrence County, PA. (30,000 sq.ft.)

ARC Grant: $121,000

Firms: Northwest Pennsylvania Training Partnership
Consortium, Inc.
Info-Age Computers

Pennsylvania's Appalachian Enterprise Development Program

The focus of the Appalachian Program in Pennsylvania is enterprise development. The primary goal of this effort is to accelerate job creation for Pennsylvania by assisting small entrepreneurial enterprises capture growing markets for Pennsylvania products. To accomplish this goal and the five related program objectives (see Figure A), the Commonwealth's seven Appalachian regional planning and development commissions (see Figure B) are using Appalachian Development funds to provide the following services to firms in their regions:

Business Loan Packaging

Financing is arranged for new business starts or expansions using both public and private sources, including the Pennsylvania Capital Loan Fund (PCLF). Local Development Districts (LDDs) in the Commonwealth have contributed to the administration of the PCLF program by combining that resource with other financial aids and developing an interest blend which encourages the business and industrial community to expand operations, thus increasing jobs throughout Pennsylvania.

The LDDs will continue to provide this service and expand the opportunities for economic growth by administering a variety of revolving loan fund programs, including the PCLF, on behalf of the Commonwealth of Pennsylvania, and to work closely with the Department of Commerce in achieving the goal of encouraging as many job opportunities as possible.

Incubator Centers

Over the past several years, efforts have been undertaken by many of the LDDs to secure and/or encourage facilities which have been identified as incubator centers. These incubator centers provide low-cost rental space for small companies who may be initiating a new product. Many of these companies are growth companies which, if nurtured, will lead to substantial jobs throughout the Commonwealth. Commonwealth support to LDDs to establish such incubator centers, through the technical assistance role which LDDs play, is an important ingredient to encouraging economic growth. The Ben Franklin Partnership provides research and development incubator facilities.

Federal Government Procurement Assistance

Many LDDs utilize staff persons to provide direct assistance to the business and industrial community to capture Federal contracts which heretofore have been neglected by Commonwealth private sector institutions. Many opportunities exist to increase job opportunities as a result of linking the business and industry with the appropriate Federal departmental agency to secure Federal contracts. To accomplish the task effectively, a full-time effort is required throughout the Commonwealth to take advantage of the training which has already occurred and which may be continuously needed in order to keep up to date with new small business procurement requirements. LDDs form the network by which the match can take place between the Federal departmental agency and a Commonwealth business or industry.

Foreign Export Assistance

A foreign export assistance program also has been recently developed. The staff from each of the Local Development Districts (LDDs) have received export development training in order to assist small to medium-sized businesses obtain sales through the highly competitive export market.

Exporting is a major priority on the part of the Federal administration, as well as the Pennsylvania Department of Commerce. A one-to-one relationship is the most important tool for encouraging exporting, whereby the business or industry is linked directly with an LDD staff member who can work closely with the private sector to help with all aspects of the export process. The Pennsylvania Department of Commerce and the International Trade Administration of the United States are working in cooperation and are available to assist in this effort, but the one-to-one relationship is the most important link which can encourage new jobs through export promotion. LDDs can provide this linkage.

Enterprise Development Areas

Special attention is being given by each LDD to the Commonwealth's new Enterprise Zones as part of the overall enterprise development program. These Enterprise Zones are targeted for priority consideration for state funding through a wide range of programs spanning several Commonwealth departments. The LDDs are assisting local communities apply for enterprise zone designation and are serving as consultants to bring these targeted funds to the designated areas.

Job Training Assistance

The labor training needs of growing companies are being met by linkages with Pennsylvania's own Customized Job Training Program, the Federal Job Training Partnership Act (JTPA), Vocational-Technical Schools, and Community Colleges.

Technology Transfer

Each LDD is working with the Advanced Technology Centers (ATCs) of the Ben Franklin Partnership to assist Pennsylvania firms compete for Federal Small Business Innovation (SBIR) awards. The LDDs are funneling new product or process ideas to the ATCs as possible Ben Franklin projects. In turn, successful Ben Franklin projects are being provided to the LDDs as the new companies attempt to start or expand. Several of the LDDs also receive direct Ben Franklin grants to provide certain specialized services for the ATCs.

Bureau of Appalachian Development and State Grants

The Bureau of Appalachian Development and State Grants is responsible for the overall administration of the Appalachian Development Program in Pennsylvania. The Bureau staff is involved in the planning, project development, and project management functions associated with the ARC Finish-up Program. The Bureau assists seven Local Development Districts in the development and management of their enterprise development programs. The Bureau also manages the state-funded Community Facilities and Site Development Programs, along with the new Business Infrastructure Development program. In addition, it is responsible for coordinating the activities of the agencies participating in the Consolidated Technical Assistance Grant. The overall goals and objectives for the Bureau are listed below:

Goal: To promote the generation of net new jobs for the Commonwealth by providing a system of support services to new and emerging industries in Appalachian Pennsylvania.

Objectives:

1. Continue to increase the number and quality of development finance packages (including Capital Loan Fund deals) produced for new and emerging industries, especially those dealing with application of advanced technologies. Continue to pursue additional private sector capital arrangements for regional projects (e.g., Ford Foundation, Prudential, Aetna, venture capital companies).

2. Increase the number of new small industry "incubators" and also the number of fledgling companies located in these facilities.

3. Fully develop the already successful Procurement Outreach Program (POP) and expand it to the non-Appalachian portion of the state.

4. Start a new export outreach initiative modeled on the procurement outreach system.

5. Increase regional agency linkage with Ben Franklin Partnership Advanced Technology Centers (ATCs), Small Business Development Centers (SBDCs), and other organizations to expand the delivery of new venture services to inventors and entrepreneurs.

6. Communicate to inventors, entrepreneurs, and young companies the range of tools available to them via our new programs.

7. Continue to encourage each regional agency to improve its local and external "networking" so that companies have available a complete range of services to fully capitalize upon the opportunities available in their areas. Provide additional state funds to the regional enterprise development initiative to make this possible.

8. Improve linkages with new education and training initiatives, especially the state Customized Job Training program and Federal JTPA Program.

9. Continue to target infrastructure grant funds to distressed areas, especially where local public-private partnerships are trying to develop and carry out a strategy for action.

Accomplishments to Date

During the period October 1, 1983 through September 30, 1984, Pennsylvania has benefited greatly from the ARC enterprise development program. As a result, the Commonwealth has experienced an increase in total sales amounting to approximately $538 million. Of this total, $434 million represent new sales to Pennsylvania. These new sales represent business expansions projected to create over 4,000 jobs during the next three years (see Tables I and II and Exhibit A).

Objective 1: Continue to increase the number and quality of development finance packages and pursue additional private sector capital.

Due to the success of the regional agencies' loan work, the PCLF has received its first state General Fund appropriation of $1 million this year. In addition, the PCLF will also receive $15 million over the next three years as a result of the new Pennsylvania Economic Revitalizaton bond issue.

Objective 2: Increase the number of new small industry "incubators" and also the number of fledgling companies located in these facilities.

Eight ARC-sponsored multi-tenant "incubator" facilities are in various stages of development. The most developed, SPEDD's small business incubator in Wexford, houses five advanced technology firms, employing 60 people. As a result of the success of this effort, a new 260,000 square foot incubator facility at Glassport will be open for business services in Mon Valley within FY 1985. The Glassport Incubator facility will serve new and expanding businesses in Mon Valley communities which are highly distressed. The project will be undertaken jointly with SPEDD and Allegheny County and create at least 80 new jobs.

Objective 3: Fully develop the already successful Procurement Outreach Program and expand it in the non-Appalachian portion of the Commonwealth.

Pennsylvania's Procurement Outreach Program has resulted in 39 Federal contract awards to businesses of over $7.3 million during the reporting period of October 1, 1983 to September 30, 1984. Bureau staff have participated in Small Business Opportunity Fairs held in Pittsburgh, Letterkenny and Butler, Pennsylvania. Staff has also attended a Procurement Center Representative meeting held in Richmond, Virginia, which included 12 government purchasing groups. Furthermore, staff participated in procurement workshops for small businesses in State College and Scranton, as well as helped organize the "Opportunities '84 Procurement Conference" in Pittsburgh.

Objective 4: Start a new export outreach initiative modeled on the procurement outreach system.

Staff from each of the seven LDDs, the Bureau of Appalachian Development and State Grants, and the Bureau of Domestic and International Commerce have completed a training program in the area of export marketing. The training was conducted by Dr. Peter Lauter of George Washington University, who has conducted similar programs for the Foreign Commercial Service and other public and private organizations.

The Bureau staff has developed an export outreach work program which defines the state and LDD roles and the services to be provided through this effort. The LDD export specialists will provide direct assistance to companies through the process of exporting from initial contact with foreign buyers through receipt of final payment. The Bureau of Domestic and International Commerce will provide technical assistance to the LDDs in their efforts to implement their individual export programs (see Exhibit B - Export Work Program).

Objective 5: Increase regional agency linages with Ben Franklin Partnership Advanced Technology Centers, Small Business Development Centers and other organizations involved in providing services to entrepreneurs.

The regional agencies are being linked even more closely with Advanced Technology Centers (ATCs) of the Ben Franklin Partnership (BFP). BFP grants have been provided to five of the ARC regional agencies during this reporting period. In the current fiscal year, the LDDs have received over $919,340 of BFP funds for projects linked to the activities of the ATCs. Also, the Commonwealth has received $120,000 in ARC Research Funds to help the ATCs develop their Small Business Innovation Research (SBIR) capabilities.

Objective 6: Communicate to investors, entrepreneurs and young companies the range of tools available to them via our new programs.

TO help communicate the services and accomplishments of the Enterprise Development work, several public information tools have been developed by the Bureau. These include a portable modular display, several program presentations and newsletter articles, including an article on our program in the Entrepreneurial Economy.

Objective 7: Encourage regional agency networking to ensure the availability of a complete range of services to area firms. Provide additional funds to the regional enterprise development initiative to make this possible.

The LDDs have received a three-fold increase in state funds ($400,000) to support their enterprise development activities in FY 1984-85.

Prior to this year, the LDDs were not included in a single piece of state legislation. They now have been written into five new Acts, giving them direct access to over $100 million in state funds for their regional enterprise development activities. In addition to the PCLF and incubator legislation, they are now eligible sponsors in Acts related to agricultural loans, Business Infrastructure Development (BID), and employee-ownership assistance.

Objective 8: Improve linkages with new education and training initiatives especially the state Customized Job Training Program and the Federal JTPA Program.

Several regions have successfully coupled job training assistance through the Customized Job Training Program and the Federal JTPA Program with other expansion assistance for new technology firms. Such assistance assures a more capable work force, increasing the chances for success of a new venture.

Objective 9: Continue to target infrastructure grants to distressed areas.

The Local Development Districts continue to assist communities in their regions prepare applications for designation as enterprise zones under the Commonwealth's Enterprise Development Area Program. Through this program, communities become eligible for priority assistance from over 20 Commonwealth programs.

During the past year, 77 percent of grant funds from the Bureau's Community Facilities Program and 59 percent of Site Development Program funds were awarded to communities in distressed areas.

FIGURE A

Framework for the Pennsylvania Enterprise Development Program

Primary Goal:

To establish a one-stop service capability for enterprise development in each region of the Commonwealth, focusing on net new job creation.

Secondary Goal:

To achieve some measure of fiscal self-sufficiency for the enterprise development capability of each region.

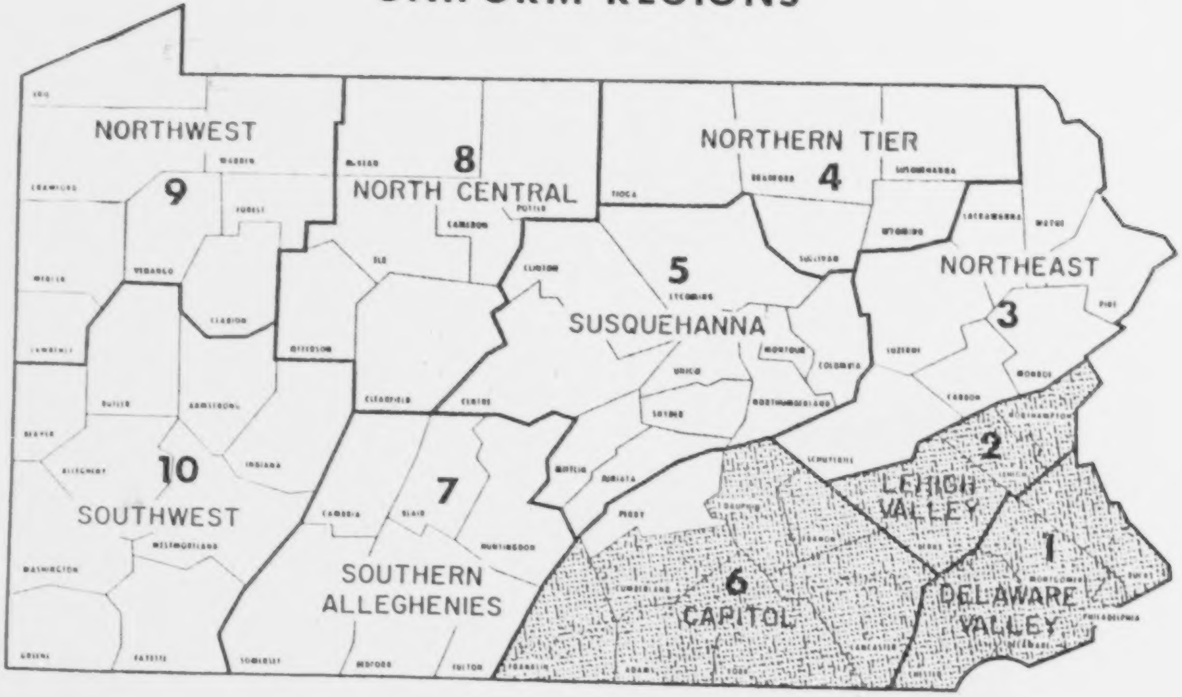
Objectives:

1. To collect new business ideas and develop a capability for evaluating the commercial viability of proposed new products or processes through the pooling of professional review talent in each region.
2. To develop a capability for meeting currently unmet financing needs of new ventures through the pooling of public and private capital resources.
3. To assist new and emerging industries to successfully "incubate" through the pooling of space and other operating facilities.
4. To assist small businesses and industries in operating more effectively and efficiently through the pooling of business support services.
5. To identify and organize specific areas as enterprise development zones where the one-stop service capability could be focused.

FIGURE B

PENNSYLVANIA'S

UNIFORM REGIONS


NORTHWEST
9
8
NORTH CENTRAL
NORTHERN TIER
4
NORTHEAST
3
5
SUSQUEHANNA
10
SOUTHWEST
7
SOUTHERN ALLEGHENIES
2
LEHIGH VALLEY
1
DELAWARE VALLEY
6
CAPITOL

☐ Appalachian Program: Urban Development Regions

☐ Appalachian Program: Rural Development Regions

▨ Non-Appalachian Regions

Table 1

Pennsylvania ARC Enterprise Development Program Impact Summary

(October 1, 1983 - September 30, 1984)

PROGRAM IMPACT	SPEDD	NORTHEAST	SOUTHERN ALLEGHENIES	NORTH CENTRAL	SEDA-COG	NORTHWEST	NORTHERN TIER	TOTALS
Increase in Sales of Pennsylvania Products*	$68,311,000	$135,062,000	$25,516,000	$13,016,000	$150,212,000	$52,640,000	$1,373,000	$446,133,000
New Sales, Net to Pennsylvania*	$40,713,000	$111,748,000	$ 8,548,000	$11,716,000	$139,995,000	$33,083,000	$ 641,024	$346,445,000
Total Jobs Affected* (and in Year 1)	622(357)	1,264(303)	404(352)	200(45)	980(474)	632(486)	86(57)	4,188(2,074)
Net New Jobs to Pennsylvania*	283	535	28	181	830	320	63	2,240
Total Businesses Assisted	98	49	422	39	108	150	2	868
Active Caseload	40	26	308	34	70	101	2	581
Total ARC Investment	$ 1,304,000	$ 100,000	$ 155,000	$ 567,185	$ 1,067,000	$ 681,064	$ 295,547	$ 4,170,000
Other Public Investment Stimulated by ARC Investment	$ 3,276,000	$ 5,184,000	$ 976,000	-	$ 7,492,000	$ 3,366,000	$ 491,000	$ 20,786,000
Other Private Investment Stimulated by ARC Investment	$ 9,284,000	$ 5,657,000	$ 609,000	$ 1,359,000	$ 12,376,000	$ 2,578,000	$ 160,000	$ 32,025,000
Total Enterprise Development Program Investment	$13,864,000	$ 10,941,000	$ 1,740,000	$ 1,926,000	$ 20,936,000	$ 6,626,000	$ 946,547	$ 56,982,000
Program Income for FY 1984	$ 382,000	-	-	-	$ 65,468	$ 118,071	-	$ 565,539

* Three-year Projections (1984-87)

TABLE II

STATEMENT OF ARC PROGRAM IMPACT BY TYPE OF ASSISTANCE

(October 1, 1983 to September 3, 1984)

IMPACT MEASURE	TYPE OF ASSISTANCE			
	Enterprise Development	ARC-Related Grants	Other Grants and Loans	TOTAL
Increase in Sales of Pennsylvania Products*	$446,133,000	$67,671,000	$52,633,000	$566,438,000
New Sales, Net to Pennsylvania*	$346,445,000	$39,557,000	$23,545,000	$409,548,000
Total Jobs Affected* (and No. in Year 1)	4,188 (2,074)	1,111 (494)	1,428 (847)	6,727,(3,415)
Net New Jobs to Pennsylvania*	2,240	1,111	1,034	4,385
Total Businesses Assisted	868	18	126	1,012
Active Caseload	581	13	36	630
Total ARC Investment	$ 4,170,000	$ 553,000	0	$ 4,723,000
Other Public Investment Stimulated by ARC Investment	$ 20,786,000	$14,231,000	$14,691,000	$ 49,709,000
Other Private Investment Stimulated by ARC Investment	$ 32,025,000	8,415,000	6,687,000	47,127,000
Total Enterprise Development Program Investment	$ 56,982,000	$18,936,000	$21,378,000	$ 97,298,000
Program Income for FY 1984	$ 565,000	0	0	$ 565,000

* Three Year Projections (1984-87)

Mr. **Perkins**. Pennsylvania and the Mid-Atlantic Region went from second to last of the Federal regions in terms of new small business starts in the country, and in the last year it has been second from the top in new business starts.

Mr. **Nowak**. I think that it would be helpful to the committee to learn more about the Pennsylvania partnership you talk about, the incubator part of it, and the whole structure, because it really is getting at this whole concept that we talked about. In the holistic approach to economic development, maybe there is a small Federal role that can be played. We would need more, perhaps, of a Federal presence in West Virginia at this point in time than in Pennsylvania, but at least the concepts are the same. They actually take all the pieces, instead of taking one little grant. I think that is a great contribution.

Let me turn to Mr. Clinger for one last statement.

Mr. **Clinger**. I was thinking, when our colleague, Mr. Perkins, was talking about the diversification problem, that one of the things that would provide more flexibility is if you have a broader authorization for revolving loan-type activities because that will give the agency, I suspect, the flexibility to encourage diversification, which is really not presently available now with the limited focus of what you can do with the program. Would you agree?

Mrs. **Pizzano**. I think that is true. At this point, we are focusing on infrastructure.

Mr. **Nowak**. If there are no further questions, I want to thank you for your patience, Mrs. Pizzano, and certainly for the thorough job you have done in collecting a lot of data for this committee. It is the first time that it has ever been used or put together. I appreciate it, and I will be looking forward to digesting the rest of the testimony, to more conversations, and perhaps a relationship where we can get more involved in monitoring the results of allocation of these funds if, in fact, the rescission does fail.

Thank you very much.

Mrs. **Pizzano**. Thank you, Mr. Chairman.

Mr. **Nowak**. We have now as a witness, Mr. Charles Howell, chief administrative officer, city of Macon, Macon, GA. To introduce Mr. Howell, I have invited back an old friend from the full committee, an outstanding member who has a great interest in not only the Public Works Committee matters but more specifically in the ARC and EDA programs. I am talking about Roy Rowland who will make the introduction.

Mr. **Rowland**. Thank you very much, Mr. Chairman, and thank you for the opportunity to offer for me to sit with the subcommittee, but I have a meeting that I am already late for.

Mr. Chairman, and members of the subcommittee, it is indeed an honor and a privilege for me to have the opportunity to introduce to you today a person that I came to know when he was executive director of the Middle Georgia APDC several years ago. Even though he is from the largest city in the district that I represent, which is mostly rural, I found early that we had interests that were very parallel to each other. He was able to focus in on the problems that we were experiencing in the rural areas of the district, the problems that the farmers were having and the problems that our textile industry was having. That pleased me very much since he was from the largest city in the district.

Since he did focus in on these areas, I came to know him even better. I came to know him and his activities in the National Association of Development Organizations, focusing on specific issues in that area, providing information that enabled me to better serve the people in the district that I represent.

We have lost him from that position as executive director of the Middle Georgia APDC, but he had become the chief administrative officer of the city of Macon. As he has said, the roads in the district all lead to Macon. We are very much intertwined in the district there, and I think that we might look at the Middle Georgia District as being a microcosm of what we are finding in the rural areas throughout the entire United States.

So it is a real privilege for me to introduce to you a good friend, a person who has meant a great deal to the economic development of the area in which I live, the Middle Georgia Area, my good friend, Charles Howell.

Mr. NOWAK. Thank you

Mr. Howell, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

NADO

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
400 North Capitol Street, N.W., Suite 372, Washington, D.C. 20001 202-624-7806

Testimony of:

CHARLES HOWELL

CHIEF ADMINISTRATIVE OFFICER

CITY OF MACON, GEORGIA

On Behalf of The

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Before the

Subcommittee on Economic Development

U.S. House of Representatives

On

H.R. 10, The National Development Investment Act

March 20, 1985

Washington, D.C.

STATEMENT BY CHARLES HOWELL, PRESIDENT, ON BEHALF OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, BEFORE THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, U.S. HOUSE OF REPRESENTATIVES, MARCH 20, 1985.

INTRODUCTION

Mr. Chairman, members of the Subcommittee on Economic Development, I am Charles Howell, Chief Administrative Officer of the City of Macon, Georgia. I am also President of the National Association of Development Organizations (NADO). Before joining the City of Macon, I was Executive Director of the Middle Georgia Area Planning and Development Commission for 14 years.

I am pleased to have this opportunity to testify on behalf of NADO's members as your subcommittee considers legislation to reauthorize the Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC). We are grateful for the bipartisan support for EDA and ARC that continues to be evident in this subcommittee, and look forward to working with you as H.R. 10, the National Development Investment Act, is enacted by the House and Senate and becomes law.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

NADO was founded in 1967 by a group of economic development districts to encourage the creation and retention of jobs in rural and small metropolitan areas. Today our members are multi-county planning and development organizations and other state and local agencies which help local governments and the private sector work together on business, community, economic and rural development programs.

DEVELOPMENT DISTRICTS

For thousands of communities, development district staffs provide the only professional assistance to governments, businesses and citizens in the field of economic development. By working cooperatively through development districts, local governments and the private sector can maintain and create jobs with a minimum of control from Washington and maximum local participation. Development districts have become an essential part of the "institutional infrastructure" in much of rural America.

The infrastructure crisis is usually thought of in terms of our nation's physical public facilities and there is little doubt that much of this country's physical infrastructure needs reconstruction, rehabilitation or repair. Without an adequate institutional infrastructure -- appropriate fiscal planning, budgeting, and expenditure policies included -- we are doomed to repeat such physical crises on a cyclical basis. We need to deal with the coordinated development of public and private capital facilities on a life-cycle cost basis. The need for investment strategies is particularly important in areas where both public and private resources are scarce, such as rural areas and places which are experiencing long term or sudden decline.

We are very pleased that H.R. 10 requires that a development investment strategy be prepared to identify economic problems and to come up with a plan for solving them. The preparation of the strategy is a natural progression from the current Overall Economic Development Plan which is required by the existing EDA legislation. Before we can solve our problems we must understand what they are.

ECONOMIC CONDITIONS VARY WIDELY

NADO's members serve rural and small metropolitan areas across the country. In the areas where we work, we are concerned about the economic well-being of the entire region. For example, the economic health of Macon depends on the outlying counties which surround the city. In the state of Georgia, all roads lead to Atlanta, but in Middle Georgia, all roads lead to Macon. When the farmers are suffering or a plant closes in Macon, the areawide economy of the city and its hinterlands is affected, just as it is helped when the farmers are prospering and new jobs are being created in our community.

We believe that this is also true for our nation. If a rural or urban area's economy is depressed, the entire country should be concerned and efforts should be made to help people at the local level to improve their situation. That is what EDA and ARC have done over the past 20 years.

During 1984, for example, our seven-county Middle Georgia Area experienced 12 major plant closings and 11 major reductions in permanent workforce, resulting in the loss of 2,138 jobs. There is no doubt in my mind that EDA has helped to keep Middle Georgia afloat economically since 1978 when we first qualified as an Economic Development District. EDA has awarded five grants to our region since that time totaling $3.1 million and matched locally by another $3.1 million. These projects have resulted in $142 million in private investment and helped to create 2,828 permanent jobs. The cost to EDA per job is slightly over $1,000, a small price to pay considering the cost of unemployment benefits and or welfare, not to mention that these 2,828 persons are taxpayers rather than tax users.

The NADO staff took a quick survey of the development districts which are located in the congressional districts which many of you serve. Although these are just economic "snapshots", we believe they show that the overall economic recovery has by-passed many parts of the country. A brief summary of the economic conditions in various regions is attached as an appendix.

I would also like the subcommittee to consider the particular problems which continue to be faced by rural areas. Included in my testimony is a summary of rural economic facts, which we would like to put into the record. Despite the current farm credit crisis, the Department of Agriculture has not assigned any economist to study the overall economic impact of the situation.

RURAL ECONOMIC DEPRESSION

The general economic recovery of the past two years has bypassed many rural areas. The prolonged economic recession beginning in 1980 has retarded rural economic growth and diminished the ability of rural areas to retain and attract people. While metropolitan population has continued to grow at the same rate as during the 1970s, the growth rate for nonmetropolitan areas has fallen to about 50 percent of that enjoyed during the past decade, largely due to the greater severity of the economic recession in small towns and rural areas. USDA's Economic Research Service said in a recent report, "Unemployment, discouraged workers, and involuntary shifts from full-time to part-time work schedules all increased more rapidly among nonmetropolitan residents than those in metropolitan areas." According to USDA, nonmetro areas are not coming out of the recession as fast as metro areas, contrary to the experience after the 1975 economic downturn. In a recent article, USDA's Calvin Beale wrote, "...the favorable economic factors facilitating rural growth in the 1970's have ended."

Not only have there been problems in the agricultural sector, but also many of the nonfarm industries in rural America are mature, slow-growth industries that tend to relocate to low-wage locations such as Third World countries. One result is that by 1982 the nonmetropolitan unemployment rate exceeded the metropolitan rate by two percentage points, and our research shows that the rural rate was still above the national average in mid-1984.

Another result is that in 1983 the nonmetropolitan median family income was only $20,938, while the metropolitan median income was $26,488 (27 percent higher). In fact, while the metropolitan median increased by 17.3 percent between 1980 and 1983, the nonmetropolitan median increased only 15.9 percent (while the Consumer Price Index rose by 20.9 percent). One effect of this was that the nonmetropolitan poverty rate increased from 15.7 percent in 1980 to 18.3 percent in 1983. Rural America includes virtually all of the areas of severe and prolonged poverty. All of the counties that have had consistently low incomes since 1960 are nonmetropolitan.

As the Subcommittee considers the future, we ask that you keep the following facts in mind about rural areas:

Over-Specialization by Economic Sector - Rural areas are often more dependent upon one or two economic activities for the majority of employment. Dominant activities vary from one area to another. Mining, agriculture, forestry, fishing and tourism are the usual major employers.

Isolation - Rural areas are often more physically and culturally isolated from major markets. Rural manufacturing firms are often not as aware of changes in buying habits as firms closer to major consumer areas.

Transportation - Many rural areas lack the air, rail and highway facilities to attract and hold business. Adequate transportation facilities are not only absent in many rural areas, but others such as secondary highways and bridges are poorly maintained due to a lack of funds.

Unemployed Are Exported - Unemployment figures for rural areas not only are statistically unreliable, but also are often misleading because the unemployed leave the labor force, if not the area, after a period of unsuccessful job searching. Youth outmigration is a problem in many truly rural areas.

Small Community Tax Bases Makes Debt Financing Difficult - Rural communities do not have the ability to finance public facilities to attract businesses on their own. The small population and tax base of many rural governments effectively prohibits any expansion of existing publicly-owned utilities without outside help. At the same time, in many small towns the local banks have been selling, not buying, tax-exempt bonds, because changes in the tax laws make these bonds less attractive to small institutions. Yet, the congress has approved, with the support of the Administration, further restrictions on the issuance of Industrial Development Bonds which have been the only way for many rural governments to compete for development with big cities (which have a much larger tax bases and more resources to attract new development.)

Rural Areas Lack Capital Markets - A 1981 study done for the U.S. Department of Commerce reported that the unmet capital demand is highest in rural areas; small firms have the most difficulty obtaining capital; and independent firms are at a disadvantage in capital markets. For both the farmer and the small business person in rural America, the availability and cost of borrowing money is a major problem. The transformation of American lending institutions is having a profound effect on rural areas. Until recently rural businesses could count on doing business with their local bank which was safely isolated from the vicissitudes of international money markets. For rural banks, the cost of funds was often below the prime rate. This is no longer the case and rural businesses and farmers pay interest rates the same as or higher than urban entrepreneurs.

Historic Demand Shows Greater Need in Rural Areas for Basic Facilities Aid - Rural areas have historically sought different types of federal assistance than urban areas. Nonmetropolitan areas have tended to receive more per capita in community facilities assistance, in business and industrial development and in natural resources outlays than urban areas. Urban areas have tended to receive more per capita in defense contracts, in housing and in transportation spending.

Poverty Indicators Higher for Rural Areas - The incidence of poverty is significantly higher in rural areas -- at least 35 per cent of the nation's poor are in rural areas. Rural people experience poorer health than urban dwellers and there is a shortage of medical services in rural areas. The incidence of substandard housing is three times higher in rural than in urban areas. Per capita income in rural areas continues to lag substantially behind the national average.

Farmers Face Financial Problems - The cost of money has risen faster than any other item in the production of crops, and many farmers are facing a serious problem because they have excessive debt loads. In the 1970's some farmers were able to survive economically by increasing their debt load by borrowing against their increasing land values. When land values began to decline in 1980 a large group of farmers (perhaps as many as ten percent) were burdened with excessive debt loads and are vulnerable to bankruptcy. In many rural areas these bankruptcies are having a detrimental effect on local economies as Main Street businesses begin to feel the squeeze. The value of farm land already has eroded local tax bases which depend heavily on real property taxes. Although only three percent of the population is directly involved in agriculture, 20 percent is dependent on agriculture-related industries.

THE FEDERAL RESPONSIBILITY

The federal responsibility for promoting the economic welfare of the nation is little disputed. Differences arise as to the extent of responsibility and the methods to be employed in meeting these obligations.

We believe that the federal government has a responsiblity to encourage, in fact to foster, economic development in rural and urban areas. Not all communities are equally endowed with economic resources and the effects of broad macro-economic policies do not fall evenly across the land. In fact, we see an abundance of cases in which federal policies benefit the economies of a few relatively affluent communities at a cost to others which have higher unemployment and lower household incomes. (For example, the procurement of major weapons systems is limited to a few firms in wealthy urban areas.)

THE NATIONAL DEVELOPMENT INVESTMENT ACT

The National Association of Development Organizations supports enactment of H.R. 10 as a sensible way for the federal government to help localities -- rural and urban -- to help themselves. Our members understand the need for EDA and ARC and for reform of the existing programs to be more in tune with current economic realities in the 1980's. We support funding for the current program at 1985 levels until new authorizing legislation is signed into law.

Our Board of Directors voted to support a budget freeze for 1986 and reform of existing programs to make them more effective. We believe that H.R. 10 addresses the criticisms of EDA and ARC which the Administration has enumerated.

We are particularly pleased with the attention to development investment strategies and the continuation of a central role for economic development districts. Our members have established excellent working relationships between local governments and the private sector. The district organizations are well-equipped by experience to carry out the mandates of H.R. 10 and help their local governments work cooperatively to make effective use of federal aid to support private sector development.

We strongly endorse the continuation of provisions for infrastructure development. We have realized for some time that little, if any, economic expansion occurs in regions lacking in basic community facilities. Such places lack the resources to provide needed facilities on their own. Federal infrastructure assistance is necessary to permit the most economically disadvantaged communities to compete with other more fortunate jurisdictions in attracting and retaining private businesses.

However, a 50 percent matching rate will mean that the poorest communities will face great difficulty in financing infrastructure development. A sliding scale would be more appropriate based on local economic distress and fiscal effort. Communities which are willing but unable to bear costs locally should be given an affordable opportunity to participate, as is provided to Indian tribes.

NADO favors inclusion of the revolving loan fund component of H.R. 10. As we pointed out in our review of rural economic conditions, lack of capital for small businesses contributes to slow economic growth in many rural and small metropolitan areas. Banks in many small towns are loaned up with farm loans or view small business loans as unacceptably risky. The resulting lack of private capital and inexperience of many small businesses in dealing with other sources of funds have led many small firms to close when they could have survived.

The revolving loan funds established by many economic development districts have made long-term financing available to small firms. This assistance has given many businesses the resources they require to renovate and expand their facilities and acquire new equipment. Clearly, federal financing of such revolving funds provides a needed alternative for small businesses. Again, however, the federal share or grant rate is too low for the most distressed areas. Such communities will have great difficulty in raising half or more of the money required for a viable revolving loan fund. A sliding scale attuned to distress and availability of private capital makes sense.

Districts have recognized the importance of small business in their communities, and are providing many services to them. Approximately half of the Small Business Administration's Section 503 Certified Development Companies were established on a regional basis by development districts. By using the 503 program, many small businesses have been able to obtain guaranteed loans for fixed asset financing in combination with private funding. Without the institutional infrastructure established by EDA, certified development company financing would not be available in small metropolitan and rural areas.

NADO and the Small Business Administration are currently working together on a demonstration project in three rural areas to provide management assistance to small businesses. Regional agencies in Colorado, North Dakota and South Dakota have circuit-riding management assistance staff who provide direct help to small business people in small towns and rural areas, without charge. This is an example of local initiative to help save and create private sector jobs in areas where small businesses are the only businesses. There are other districts providing such assistance on their own.

RETENTION OF EXPERIENCED STAFF

\NADO members support the retention of existing EDA and ARC staff to implement the provisions of the National Development Investment Act. These are experienced professionals whose knowledge of economic development should be used to support state and local efforts as envisioned in the bill.

In the 1986 Budget, the President said that he would propose a new Administration for Enterprise Development and Opportunity in the Department of Commerce as a replacement for SBA and the Commerce Departments minority business assistance programs. This new agency would focus on small business advocacy and procurement and minority assistance. We believe the Administration should look at H.R. 10 as complementary to their efforts for providing enterprise development, and would hope that preparation of such legislation would be an opportunity to honestly evaluate EDA programs and what the return has been on EDA investments.

DESIGNATED CRITERIA AND RURAL DISTRESS

We do have concerns about the distress criteria which are used in the bill and there are some suggestions in my testimony regarding improvements we would like to see so that rural areas would be treated fairly. I would like this information put into the record and request that the NADO staff be given the opportunity to discuss these issues with the Subcommittee staff to be sure that rural areas will be treated fairly.

For the purposes of legislation aimed at stimulating or facilitating the creation of employment opportunities it is appropriate to focus on employment-related criteria for identifying or defining economic distress -- we should create jobs where they are needed, if possible. However, economic distress is evidenced by a variety of symptoms, not merely the official unemployment rate. Nor does median family or per capita income adequately reflect the nature of economic distress at the household or neighborhood level. Such statistics are not perfect proxies for hidden unemployment and underemployment. Statistics indicating the incidence of poverty show that a significant proportion of an area's households can be poor while median and per capita figures are skewed by a sizable middle-income group or a disproportionate number of high incomes.

This is not to say that unemployment and income statistics should be ignored. It is just that they do not necessarilly reveal economic distress.

We are particularly concerned about criteria for rural economic distress. The inadequacies of federal data collection and statistical definitions regarding rural areas have been well documented. For example, the National Commission of Employment and Unemployment Statistics explicitly recognized the lack of useful labor market indicators for measuring the adequacy of employment for rural workers.

We know that underemployment measures are mandatory for an adequate depiction of nonmetropolitan and rural labor market realities. We know that the exclusion of discouraged workers from the unemployment count has disproportionately adverse significance to the evaluation of rural labor markets.

Rural areas have a higher proportion of low-earnings occupations, unpaid workers in family operated enterprises, involuntary part-time employment, low-return self-employment, and casual, seasonal and migratory employment.

Statistically, the employed include unpaid workers in family-operated enterprises. Also, smaller farm operators receive the great majority of their income from nonfarm sources, yet when they lose their nonfarm jobs they are still counted as employed.

Additionally, rural areas have lower labor force participation rates and a higher incidence of poverty incomes, even among those who are employed full time. An adequate index of rural subemployment would have to include the household heads working full-time but earning incomes below the poverty line. One approach would be to use the Bureau of Labor Statistics measures of "U6" and "U7" to determine distress. The "U6" rate is based on the civilian labor force minus half of the part-time labor force. "U7" includes "U6" plus discouraged workers. Significantly, the differences are greater for rural America than for the nation as a whole.

The bottom line is: if we are going to use an unemployment-related statistic to define economic distress, we should do it right. We should not use a biased criterion that ignores genuine economic distress in rural or urban areas or in one region or another. Unfortunately, even if we use an appropriate index for rural employment conditions, rural data collection has been notoriously inadequate.

Clearly, we would like to see the designation criteria currently used in H.R. 10 changed to deal more equitably with rural economic distress. At the same time, some urban areas facing similar problems would be treated more fairly. For example, if the criteria used in H.R. 6100 (97th Congress, 2nd Session) were used in H.R. 10, employment growth rate lag population loss would serve to qualify certain big cities as well as a number of rural areas. However, we do not believe that the criteria should be so loose that virtually any place can qualify.

CONCLUSION

NADO's members support H.R. 10 because it helps to meet the basic needs of less affluent small communities for economic development assistance. The bill addresses the need for both physical and institutional improvements in the public sector. In addition, it will help provide needed capital for private business development.

Finally, Mr. Chairman, I would like to express our appreciation to you and Mr. Clinger and to the former Chairman Mr. Oberstar for your continuing commitment to the Economic Development Administration and the Appalachian Regional Commission. NADO's members are grateful that this Subcommittee has moved swiftly to enact authorizing legislation to improve and extend EDA and ARC. We stand ready to help you pass this bill and have it signed into law.

APPENDIX
Survey of Economic Conditions In Selected Regions

REGION: Northwest Indiana Regional Planning Commission, Highland, Indiana
UNEMPLOYMENT: The overall district unemployment rate was 14%. Unemployment rate by county was: Lake County - 15.6% with a total labor force of 259,300 and 38,900 people unemployed; Porter County - 12.2% with a total labor force of 46,800 and 5,700 unemployed; LaPorte County - 10.3% with a total labor force of 47,600 and 4,900 unemployed.
BUSINESS: A drastic decline in steel mill employment is the trend. U.S. Steel Gary Works Plant employed 26,000 in 1974; 17,200 in 1980; 7,800 in February 1985. Inland Steel employed 24,300 in 1980; 20,000 in February 1985. Next month, 1000 white collar workers at Inland will be layed-off. Bethlehem Steel employed 8,700 in 1980; 6,700 in 1984. Jones and Laughlin Steel employed 8,600 in 1980 and 6,700 in 1984. National Steel, the smallest employer, has remained stable at 1800. These jobs will not return to the region.
COMMENTS: While there have been enormous cutbacks in heavy industry jobs in Lake and Porter Counties; there has been only a minimal increase in lower paying service jobs. In the decade 1974-84, 48,500 manufacturing jobs were lost while only 5,100 new nonmanufacturing jobs were created.
SOURCE: Lauren Rhein, 219-923-1060.

REGION: Ohio-Mid Eastern Governments Association, Cambridge, Ohio
UNEMPLOYMENT: As of January 1985, the unemployment rate for the overall region was 13.8%. The smallest unemployment rate was 6.3% in a predominately Amish area, where the residents don't file for unemployment; the highest rate was 15.9% in Belmont county, which is a steel and coal region.
BUSINESS: Six different companies in Guernsey have closed including a plastics firm, truck tire recapping company and cheese packaging business. There was a total loss of 40-45 jobs in each plant. New businesses were opened in only 3 of the sites. There have been 2 plant closings in Tuscarawas - 1 chemical plant employed 340 when it shut-down.
COMMENTS: "The steel and coal counties in this region need to diversify their economic base."
SOURCE: John Quinlan, 614-439-4471.

REGION: Mohawk Valley Economic Development District, Mohawk, New York
UNEMPLOYMENT: The overall unemployment rate was 9% as of December 1984.
BUSINESS: In the last 2 months 1,500 people have lost their jobs due to plant reductions. For example, International Computers Limited shutdown the entire manufacturing line with a loss of 300 jobs. (These closures will render the unemployment rates above as understated.)
COMMENTS: "While they say the economy is doing well we are not seeing it here. We are getting requests for assistance to help people start their own small businesses."
SOURCE: Roseann Murphy, 315-797-7818.

REGION: Erie-Niagara Counties Regional Planning Board, Amherst, New York
UNEMPLOYMENT: The unemployment rate for February 1985 for the 2 counties of Erie and Niagara was 9%.
BUSINESS: In the past 2 to 3 years there have been major plant closings. In 1984, Bethlehem Steel and Republic Steel closed with a total loss of 2,000 jobs.
COMMENTS: "There aren't any plants left to close in our area."
SOURCE: David Evans, 716-837-2035.

REGION: North Central Pennsylvania Regional Planning and Development Commission, Ridgeway, Pennsylvania
UNEMPLOYMENT: The unemployment rate in the six-county region was 10.6% as of November 1984. Cameron County had the highest unemployment rate in the region (14%) and McKean and Elk County had the lowest (8%).
BUSINESS: In the past few years there have been many closings and employee reductions at local plants. Phillips ECG (electronic components) has decreased its labor force by 350 over the past three years. In 1983, Viceroy (apparrel sportswear) closed with 220 jobs lost. During 1984 the following companies shut-down: Thorco (bottled soft drinks) 40 jobs lost; Cameron Manufacturing (hand and edge tools) 50 jobs lost; B&D Tool and Dye (machinery) 10 jobs lost; Piper Aircraft (aircraft) 150 jobs lost; L&M Sawmill (lumber) 5 jobs lost; National Molded (mechanical power transmission equipment) 55 jobs lost; Rola-Jenson (radio and television receiving sets) 100 jobs lost; Harvest and Walker (brick and structural clay); Hanley Brick (brick and structural clay); Steel Fabrications (fabricated steel). Last week, Airco Carbon (carbon and graphite) laid-off 250 workers. Two companies Ginter Welding (fabricating) and St. Mary's Medal Finishing (electroplating) are in financial difficulties and are expected to go out of business in the near future, totalling a 40 job loss.
COMMENTS: "Kids are moving out and you can't blame them, there are no jobs in the area."
SOURCE: Owen Auman, 814-773-3162.

REGION: Baltimore County Economic Development, Towson, Maryland
UNEMPLOYMENT: The unemployemnt rate for Baltimore County is 6.6% as of September 1984.
BUSINESS: The overall business climate in the county is very stable.
COMMENTS: "Over the years, industry has changed from manufacturing to service-oriented. White collar research and development is dominating the area today."
SOURCE: Bob Kadlec, 301-494-3648

REGION: Regional Intergovernmental Council, Dunbar, West Virginia
UNEMPLOYMENT: The 4-county region's unemployment rate as of October 1984 is 11.5% The unemployment rate in Kanawha County which encompasses Charleston was 11%; the unemployment rate in Boone County which is predominately coal was 18%. Clay County, which employs people mostly in the coal and timber industries, had an unemployment rate of 20% and is one of the most distressed counties in the country. The region, on the whole, is better than the rest of the state.
BUSINESS: Businesses in the area are not doing well. When coal mining employment is down, grocery stores float customer accounts; it is the custom. Any new business wanting to make immediate profits cannot prosper in this up and down situation. Therefore, it is very difficult for new business to open in the area.
COMMENTS: "Out of 55 counties in West Virginia, 40-45 are in fairly bad shape both in terms of unemployment and investment."
SOURCE: John Romano, 304-768-8191

REGION: Arrowhead Regional Development Commission, Duluth, Minnesota
UNEMPLOYMENT: The average unemployment rate for the 7-county region as of January was 17.4%. The highest unemployment rate in the region was in Aitkin County (24%); the lowest unemployment rate was in the City of Duluth (9.1%).
BUSINESS: There has been a gradual decline in mining employment in the past 4 to 5 years. In 1982, American Hoist and Derreck shut-down with a loss of 235 jobs and an air base closed with a loss of 1,100 jobs, In 1983, National Iron Company closed with a loss of 150 jobs and Gino's closed with a loss of 300 jobs. In 1984, Boise Cascade lost 550 plant jobs and 185 "in-woods" jobs.
COMMENTS: "In the last ten years, there have been 10,000 jobs lost in the region and a 22,000 decline in the labor force."
SOURCE: John Powers, 218-722-5545.

REGION: Southern Alleghenies Planning and Development Commission, Altoona, Pennsylvania
UNEMPLOYMENT: The unemployment rate for the 6-county region as of January 1985 was 13.2%. Bedford county had the highest unemployment rate (18.3%) and Blair County had the lowest (10.9%).
BUSINESS: Local steel facilities have had substantial closings --in 1984 Bethleham Steel shut-down with a loss of 2,500 jobs. These losses have triggered reductions in the labor force for the steel and railroad.
COMMENTS: "Our regional population has been declining."
SOURCE: Pat Miller, 814-946-1641

REGION: Middle Georgia Area Planning and Development Commission, Macon, Georgia
UNEMPLOYMENT: The 1984 annual average unemployment rate for the district was 6.9%. The January 1985 rate for the district was 7.0%. The 1984 annual average unemployment rate for rural counties in the district was 7.32 percent; for January 1985 it was 7.74%. The 1984 annual average unemployment for urban counties was 5.4%; for January 1985 it was 7.25%. The highest unemployment rate for January 85 was in Crawford County (10.2%) and the lowest rate was in Monroe County (5.3%).
BUSINESS: There have been twelve plant closings in 1984 with a total of 1,314 job losses. The closings are as follows: Levi Strauss (500 jobs lost), Allied Chemical Company (100 jobs lost), Macon Prestress Concrete (80 jobs lost), Bibb Steel (80 jobs lost), Taylor Iron Works (90 jobs lost), Riverside Clinic (114 jobs lost), General Box (45 jobs lost), American Standard (100 jobs lost), White Stores Warehouse (50 jobs lost), Syncorp (40 jobs lost), Cliff Industries (75 jobs lost), Happyvale (40 jobs lost). In 1984, 824 jobs were lost due to major reductions in the permanent work force. They are as follows: Revlon Mills (70 jobs lost), C&S Bank (60 jobs lost), Gyka (15 jobs lost), AT&T Information Systems (24 jobs lost), Bibb Mills (150 jobs lost) Roberta Pulp (25 jobs lost), Briggs and Stratton, (150 jobs lost), Anchor Glass (100 jobs lost), Pabst Haivelman (100 jobs lost), Kellwood (30 jobs lost), Englehard Kallin (100 jobs lost).
COMMENTS: In Bibb County, the construction labor union membership currently working is 200; in March 1984 working membership was 500. The carpenters labor union membership is 50% less than in March of 1984 for Bibb County. The Georgia Dept. of Labor reported 320 construction listing for Bibb County in 1984. The number of people with qualified skills who registered for these listings was 1,456.
SOURCE: Gary Bechtel, 912-744-6160

Mr. NOWAK. Please proceed.

TESTIMONY OF CHARLES HOWELL, CHIEF ADMINISTRATIVE OFFICER, CITY OF MACON, GA, ON BEHALF OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Mr. HOWELL. Thank you, Roy.

We are extremely proud of Roy Rowland and we hope that he serves you as well as we feel he serves us back in the Eighth District of Georgia. I appreciate your being here very much.

Mr. Chairman, and members of the Subcommittee on Economic Development, I am Charles Howell, chief administrative officer of the city of Macon, GA. I am also president of the National Association of Development Organizations, NADO. Before joining the city of Macon, I was executive director of the Middle Georgia Area Planning and Development Commission for 14 years in Macon, GA.

I am pleased to have this opportunity to testify on behalf of NADO's members as your subcommittee considers legislation to reauthorize the Economic Development Administration and the Appalachian Regional Commission. We are grateful for the bipartisan support of EDA and ARC that continues to be evident in this subcommittee, and look forward to working with you as H.R. 10, the National Development Investment Act, is enacted by the House and Senate, and becomes law.

NADO was founded in 1967 by a group of economic development districts to encourage the creation and retention of jobs in rural and small metropolitan areas. Today our members are multicounty planning and development organizations and other State and local agencies which help local governments and the private sector to work together on business, community and rural development programs.

For thousands of communities, development district staffs provide the only professional assistance to governments, businesses and citizens in the field of economic development. By working cooperatively through development districts, local governments and the private sector can maintain and create jobs with a minimum of control from Washington and maximum local participation. Development districts have become an essential part of the "industrial infrastructure" in much of rural America.

The infrastructure crisis is usually thought of in terms of our Nation's physical public facilities and there is little doubt that much of this country's physical infrastructure needs reconstruction, rehabilitation or repair. Without an adequate institutional infrastructure—appropriate fiscal planning, budgeting, and expenditure policies included—we are doomed to repeat such physical crises on a cyclical basis. We need to deal with a coordinated development of public and private capital facilities on a life-cycle cost basis. The need for investment strategies is particularly important in areas where both public and private resources are scarce, such as rural areas and places which are experiencing long-term or sudden decline.

We are very pleased that H.R. 10 requires a development investment strategy be prepared to identify economic problems and to come up with a plan for solving them. The preparation of the strategy is a natural progression from the current overall economic development plan which is required by existing EDA legislation.

Before we can solve our problems, we must understand what those problems are.

NADO members serve rural and small metropolitan areas across the country. In the areas where we work, we are concerned about the economic well-being of the entire region. For example, the economic health of Macon depends on the outlying counties which surround the city. In the State of Georgia, all roads lead to Atlanta, but in Middle Georgia, all roads lead to Macon. When the farmers are suffering or a plant closes in Macon, the area-wide economy of the city and its hinterlands is affected, just as it is helped when the farmers are prosperous and new jobs are being created in our community, which serves as the job center for the region.

We believe that this is also true for our Nation. If a rural or urban area's economy is depressed, the entire country should be concerned and efforts should be made to help people at the local level to improve their situation. That is what EDA and ARC have done over the past 20 years.

During 1984, for example, our seven-county Middle Georgia Area experienced 12 major plant closings and 11 major reductions in permanent workforce, resulting in the loss of 2,138 jobs. There is no doubt in my mind that EDA has helped to keep Middle Georgia afloat economically since 1978 when we first qualified as an economic development district. EDA has awarded five grants to our region since that time, totalling $3.1 million and matched locally by another $3.1 million. These projects have resulted in $142 million in private investment and helped to create 2,828 permanent jobs. The cost to EDA per job is slightly over $1,000, a small price to pay considering the cost of unemployment benefits and/or welfare, not to mention that these 2,828 persons are taxpayers rather than tax users today.

The NADO staff took a quick survey of the development districts which are located in the congressional districts which many of you serve. Although these are just economic snapshots we believe they show that the overall economic recovery has bypassed many parts of the country. A brief summary of the economic conditions in various regions is attached as an appendix.

I would also like the subcommittee to consider the particular problems which continue to be faced by rural areas. Included in my testimony is a summary of rural economic facts, which we would like to put in the record. Despite the current farm credit crisis, the Department of Agriculture has not assigned one economist to study the overall economic impact of the situation.

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In the 1986 budget, the President said that he would propose a new Administrator for Enterprise Development and Opportunity in the Department of Commerce as a replacement for SBA and the Commerce Department's minority business assistance programs. This new agency would focus on small business advocacy and procurement and minority assistance. We believe the administration should look at H.R. 10 as complementary to their efforts for providing enterprise development, and would hope that preparation of such legislation would be an opportunity to honestly evaluate EDA Programs and what the return has been on EDA investments.

We do have concerns about the distress criteria which are used in the bill and there are some suggestions in my testimony regarding improvements we would like to see so that rural areas would be treated fairly. I would like this information put into the record and request that the NADO staff be given the opportunity to discuss these issues with the subcommittee staff to be sure that rural areas are treated fairly.

The bottomline is that if we are going to use an unemployment-related statistic to define economic distress, we should do it right. We should not use a biased criterion that ignores genuine economic distress in rural or urban areas or in one region or another. Unfortunately, even if we use an appropriate index for rural employment conditions, rural data collection has been notoriously inadequate.

Clearly, we would like to see the designation criteria currently used in H.R. 10 changed to deal more equitably with rural economic distress. At the same time, some urban areas facing similar problems would be treated more fairly.

NADO's members support H.R. 10 because it helps to meet the basic needs of less affluent small communities for economic development assistance. The bill addresses the need for both physical and institutional improvement in the public sector. In addition, it will help to provide needed capital for private business development.

Finally, Mr. Chairman, I would like to express our appreciation to you and Mr. Clinger and to the former chairman, Mr. Oberstar, for your continuing commitment to the Economic Development Administration and the Appalachian Regional Commission. NADO's members are grateful that this subcommittee has moved swiftly to enact authorizing legislation to improve and extend EDA and ARC. We stand ready to help you pass this bill and have it signed into law.

You are absolutely correct in saying that the public dollar always precedes the private dollar. This has been true throughout the history of our country, and particularly since the Great Depression of the 1930's. If it were not for the basic public investment we in our area have received in recent years from Federal Programs designed to stimulate local development such as EDA, SBA, UDAG, and CDBG, we would be in sad shape today.

Thank you, Mr. Chairman.

Mr. NOWAK. Thank you very much, Mr. Howell, for a complete and very helpful statement. The appendix with the survey of economic conditions in those regions, I think, will be very helpful in showing that this is a broadbased problem. It has not developed in a small area, but it has far-reaching national significance. When you look at the problems that are out there, it reflects that we have real reasons to fund this legislation or the existing legislation.

Hopefully, we can improve the legislation, and you have mentioned a couple of suggestions on distress criteria, and the kind of local input. One of the problems that we talked about in the enterprise zone hearings of last year when I was on a different committee concerned the kind of contributions that will have to come from the most distressed areas. On the one hand, we want to help them, and on the other hand, the commitment that they would be forced to make just to be competitive, in some instances I am sure, would be overwhelming. So they were contradictory in terms of whether to move that program ahead.

What I am hoping to do is to join all of these things together, as I think H.R. 10 does, with the existing structure, and bring aboard the Federal Co-Chairman as well. I think the targeting makes sense, but there are other, as you can well imagine, practical problems in trying to target in the House and Senate, which have different types of representation. Over in the Senate where every State has two votes, regardless of the size of the constituency, there are problems in trying to make these adjustments. That is what has led a lot of people to throw up their hands and say, "We really can't accomplish it all, so let's throw away the program." It is a harder task to try to take the best pieces and put them together so that we can have a sustainable effort out there.

I believe that a Federal presence should be in economic development because of the great impact that other Federal decisions have on the economies of every region of this country, whether it is rural, urban, or suburban. Whether we like it or not, we do, in trade and in other areas, bring about those impacts and make the adjustments. Perhaps we can't solve it all, but we can have a presence there that minimizes the transitions that even in a growing economy have to take place.

We appreciate your testimony and the support of your organization. We will look forward to working very closely with you.

Mr. Clinger.

Mr. CLINGER. Thank you, Mr. Chairman.

I would like to thank, Mr. Howell, and associate myself with your comments. I am certainly aware of and very grateful for the tremendous impact that development organizations have had particularly on the rural areas of this country where we too often do not have the in-house expertise, and that expertise has been provided by the development organizations in large measure.

I think that it is fair to say that there are many areas of our country that would be in far worse shape today had it not been for the advocacy of the development organizations, and the contributions they have made in development strategies for economic development.

I am very pleased that NADO does support the thrust of the bill, and also the modifications. Let me just ask a couple of questions.

I think that it is a general rule of thumb that eligibility criteria emphasize per capita income tending to benefit rural areas, whereas unemployment criteria tend to favor urban areas of the country. Which eligibility definitions do you recommend be included? Have you developed how much of the country, in terms of total population, would qualify for assistance?

Mr. HOWELL. We have not done that, but we would like to do so.

Mr. CLINGER. I think that it would be helpful to have an idea of what works. One of the criticisms that has been leveled persistently over the past 4 years against EDA is the fact that 83 percent of the country is qualified under the eligibility criteria for EDA assistance. It varies up and down, depending on what is happening, but it has been somewhere between 38 and 84 percent.

Mr. HOWELL. Mr. Clinger, let me make a personal comment about that. I don't think there is really that much of a problem with being eligible. When funds are made available through certain programs that are developed, those programs can be targeted. So regardless of eligibility, when it comes to implementation, programs can still be targeted and in many cases are. So eligibility, I don't think, is that much of a problem.

Mr. CLINGER. You are saying that in practice, at least, they have been targeted to the most distressed areas.

Mr. HOWELL. Yes.

Mr. CLINGER. The areas of greatest need.

Mr. HOWELL. Yes, despite the eligibility question.

Mr. CLINGER. Which is one of the reasons, I think, that we did away basically with the designation of areas in the bill because as a practical matter that is what has happened. We are putting the funds in the areas of greatest need anyway.

I can certainly sympathize with your complaint about the 50 percent local matching rate, that obviously will work a hardship on some areas. But I think that it is also fair to say that from what we have seen over the years that there has been a decline in the investments which have been made in infrastructure, and that decline has been most precipitous at the State and local level. The Federal investment has remained fairly constant, but we have seen a decline from something over 4 percent of GNP back in 1965 down to something like 1.6 percent of GNP now at the State and local level. There seems to be a correlation there between the fact that in 1965, or prior to 1965 most Federal programs were on a 50/50 match basis. When we went to the higher Federal participation, it permitted the State and local level governments to move into other areas and take it away from infrastructure investment.

I think one of the thoughts at least was that we have to reverse the trend of continually diminishing State and local effort in this area. The only way to do that is to require a greater Federal match. It would seem to us that while 50 percent local share may be a burden, it does increase local responsibility.

For example, my main objection to the LPW Program, which was 100 percent is that there were a lot of projects that never would have been constructed, and probably never should have been constructed, under that program, but when you have 100 percent money there is not a whole lot of incentive to go for the most necessary programs.

H.R. 10 would abolish title II, as you know, all of the Federal loan authority in EDA. The legislation would permit the establishment of revolving loan funds. I have certainly found that the revolving loan is an economic development tool that has been most helpful in Pennsylvania. No. 1, it takes much more local decision-making, and not so much dictation from the Federal level.

You think the States, districts and municipalities have the expertise now and financial ability to use the revolving loan funds to guarantee loans. This is a suggestion that has been made. As you know at the present time there must be a direct loan. There is no authority to guarantee other loans, which would presumably give greater leverage. By the same token, I am a little concerned that that might be too broad a grant of authority to permit guarantees of loans.

Mr. **Howell**. I think that some districts could handle that type of responsibility, but I think that you would have to be very careful about who could carry that responsibility and who could not. They would have to demonstrate that they have the administrative capability and the proper type of basic organization that would carry that responsibility.

Mr. **Clinger**. I wonder, too, whether it would be worth very much because the loan guarantee wouldn't have that much behind it. The Federal loan guarantees do have the full weight of the Government of the United States, but they would not have that kind of protection if it were coming through a revolving loan fund.

I think that you have made some interesting suggestions with regard to the bill. We certainly appreciate very much your testimony, and we commend you for the great work that you have done in the past. We wish you well with your problems in Macon, GA.

Mr. Nowak. Mr. Howell, thank you very much, and we will certainly be working with your staff people, look at your suggestions, and also develop other thoughts that we have in this whole area as we move down the road in this process. Hopefully, we can arrive at something that makes a larger impact. I think everybody agrees at this point in time that there is a need for this type of Federal presence, and I hope that we can coalesce all of that thought into something that is meaningful.

Thank you very much.

Mr. Howell. Thank you. I appreciate it.

Mr. Nowak. The next witness is Mr. Bernard Berkowitz, who is president of the Baltimore Economic Development Corp., and he will be speaking on behalf of the National Council for Urban Economic Development.

We want to thank Mr. Berkowitz for his patience. The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

March 20, 1985

STATEMENT OF BERNARD BERKOWITZ
PRESIDENT, BALTIMORE ECONOMIC DEVELOPMENT CORPORATION AND
MEMBER OF THE BOARD OF DIRECTORS
OF THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

Before the House Subcommittee on Economic Development
of the Committee on Public Works and Transportation

Mr. Chairman and Members of the Committee:

It is my distinct pleasure to be here today to express the support of the National Council for Urban Economic Development for H.R. 10. The Council is pleased that this committee is persevering in its efforts to put in place a federal economic adjustment mechanism which would assist economically distressed communities in facilitating new private investment and employment. The Council with its more than 1000 public and private economic development practitioners working in over 450 communities around the country believes that the type of assistance provided through the proposed legislation is critical to the economic growth of our nation's urban and rural areas.

The importance of this assistance is evidenced by the recent actions of the Council's National Policy Committee which examined the current federal development programs and considered the public works and adjustment assistance currently available from EDA and contained in HR 10 to be among the most effective and essential federal development tools.

Before discussing the specific programs contained in HR 10, I would like to address how the proposed assistance is a productive and appropriate use of federal resources. The Council and its members recognize the need to limit federal spending. At the same time, we have long recognized that private investment is the key to local economic revitalization. For over 18 years, the Council has sought to devise and share new ways to leverage private investment and to minimize public involvement.

HR 10 is an efficient use of limited federal resources in its programmatic design and potential impact. Programmatically, it mandates a substantial local match so that for each federal dollar at least one and often two other dollars are required, and this does not take into account the substantial spin-off investment which accompanies most public-private development efforts. In terms of impact, the projects assisted by HR 10 will result in increased local, state and federal tax revenues which will more than make up for the initial federal investment and provide additional resources for state and local governments. The funding requested in HR 10 is an investment. Rather than contributing to the federal deficit, this legislation can reduce it through increased economic activity.

Let me illustrate how a federal investment can result in increased jobs and investment. The Holabird Industrial Park is a 184 acre site. With an $11.3 million EDA Title IX grant and city funds, the city of Baltimore acquired and cleared the site and provided the necessary streets and utilities. Today, 180 of the 184 acres are either sold, leased or optioned. The Park contains 18 companies employing approximately 1,000 people with a private investment of $42 million and additional plant construction planned. At the same time, the existence of this industrial park was instrumental in Baltimore's retention of the GM Assembly Plant. GM needed 25 acres for an employee parking lot so that the existing parking facilities could be used for the expansion and modernization of GM's plant. Because the city had the necessary land, GM has stayed in Baltimore retaining 4,000 jobs. The modernization it undertook amounted to $258 million. Thus, an initial EDA investment of $11 million has resulted in private investment of more than $300 million, the retention of thousands of jobs and the creation of hundreds of others.

In our previous testimony on this legislation, the Council described what we consider to be the most productive and appropriate role for the federal government in local economic development. Economic development is the process of adjusting to changes in the economic base. It is a constant process occurring in local, national and global economies. Economic adjustment leads to temporary -- and sometimes permanent -- changes in demands for labor, availability of capital, and technology.

Areas which have borne the brunt of these structural changes have experienced the rapid and economically devastating impacts of disinvestment and unemployment. The ability of these areas to recover and to develop self-sustaining economies is often hampered by a poor investment climate. This can be due to various gaps in an area's economic infrastructure including poor roads, insufficient wastewater treatment facilities, inadequately trained labor, and the lack of affordable capital among others. Without the proper amount and mix of economic assets, private investment will not occur.

When the right set of economic conditions exist, the investment will happen even in communities which have experienced severe economic problems. In Baltimore, we have been able to create 60 new jobs in the biotechnology field by meeting a firm's space needs. With a $1.2 million EDA grant and other public and private resources, a vacant building is now the corporate headquarters of a pharmaceutical firm and the employer of 60 people. We are hoping that this facility located near the Francis Scott Key Medical Center will lead to other investments by the industry.

There is no doubt that the local public and private sectors have the primary responsibility for improving their community's competitive advantage for investment. However, the severity of some economic dislocations such as major plant closings, slowdowns in major industrial sectors, and the collapse of essential infrastructure can exhaust a locality's resources. Even communities which have examined their economic growth potential and are seeking to stimulate start-ups and related new investment may be unable to effectively address a major economic disaster. However, with carefully targeted and timely assistance, these communities can improve their local environment for investment, support new and more productive business activity, and have a sufficiently solid economic base to respond to future adjustments. This is an effective and appropriate role for the federal government.

Baltimore is a city which has experienced economic adjustment, disinvestment, and unemployment. However, the careful use of public dollars has yielded new jobs and investment on which additional growth can occur. For example, by combining a $4.85 million EDA grant and $2.5 million in city funds we were able to acquire and modernize an 8 story vacant clothing manufacturing plant. Today, this 400,000 square foot building is occupied by 21 small and medium sized businesses of which 5 are minority-owned. The firms employ more than 600 people. About 1/3 of these jobs are new. In addition, one of the firms has been so successful that it has established branches in Baltimore and other cities creating more than 350 jobs.

The National Development and Investment Act recognizes the adjustment process at the local level. The flexibility in the use of funds allows communities to invest them in a manner which is most suitable for the particular development opportunity. The Council is particularly pleased that the legislation provides for locally-administered revolving loan funds. These have been used very effectively in many communities to facilitate business expansion and leverage private financial participation. Limiting the federal contribution will hopefully lead to increased leveraging of other public and private resources and more carefully designed projects.

The development investment strategy outlined in HR 10 should encourage communities to evaluate their local economy's assets and liabilities and then design a series of activities to facilitate the types of private investment best suited to their particular economic position. In this way, localities will focus on a series of public and private actions to facilitate investment rather than a singular project.

The Council is also pleased that HR10 is targeted to urban and rural areas based on poverty or underemployment, unemployment, and the occurrence of a sudden economic dislocation. These communities are truly in need of the project and planning assistance provided under the legislation. We urge the Congress in considering the legislation to maintain the strict targeting language of the current bill.

It is essential that the assistance be provided to those areas which have an opportunity to stimulate private investment. The required development investment strategy should ensure that the funds are productively used for activities which maximize the area's competitive advantage and strengthen its overall ability to respond to and capitalize on the economic adjustment process. Those communities which recognize their economic assets and know which industries have the greatest potential for growth in their local economy have the best chance for sustained economic growth.

We would like to offer a few suggestions for changes in HR10.

1. The $2 million annual limitation on assistance provided through this legislation could be needlessly restrictive for large and small communities pursuing major investment opportunities or suffering from severe economic dislocations--such as a plant closing. Rather than establish this limitation in the legislation, it might be better to wait a year so that we can evaluate the types, sources, and amount of the requests for assistance. At that time we can devise a limitation if necessary which reflects real demands for the funds. Setting a limit now could hamper or skew major development initiatives in large and small communities.

2. The $1 million limitation on the capitalization of RLFs may hinder its effective use in the areas of greatest need. The required

local match and development investment strategy should be sufficient to insure careful use of the federal monies.

3. The small businesses to be assisted through the RLFs should be defined by the locality as part of their investment strategy. Shifting federal definitions of "small business" can thus be avoided.

Finally, the assistance provided under Title II could be critical to building the local capacity to devise and implement investment strategies. As stated earlier, those communities which have a clear understanding of their economies and their competitive advantage for certain types of investment have the greatest likelihood for devising and implementing public-private activities which will facilitate growth, investment and innovation. These communities will also make the most productive use of the public and private resources available -- including the resources provided through HR 10. Title II's assistance gives communities the ability to use not only HR10's assistance, but also to coordinate infrastructure, business assistance, and job training activities in such a way as to promote long term private investment and employment in our urban and rural areas.

This legislation is an important step in improving the federal government's role in assisting communities experiencing the jolts of unemployment and disinvestment due to shifts in our national economy. It can be the critically needed linchpin for coordinating public and private investment strategies at the local level. On behalf of the National Council for Urban Economic Development, I would like to express our appreciation for the opportunity to appear before you today and for your continued efforts to shape a federal program which recognizes the economic realities or our nation's communities.

Thank you.

Mr. NOWAK. Please proceed.

TESTIMONY OF BERNARD BERKOWITZ, PRESIDENT, BALTIMORE ECONOMIC DEVELOPMENT CORP, ON BEHALF OF THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

Mr. BERKOWITZ. Mr. Chairman, and Congressman Clinger, members of the committee.

I would appreciate it if my written testimony would be entered into the record of this hearing.

Mr. NOWAK. Without objection, it will be made part of the record.

Mr. BERKOWITZ. It is my distinct pleasure to be here today to express the support of the National Council for Urban Economic Development for H.R. 10. I am also here representing Mayor William Donald Schaefer of Baltimore City, expressing Baltimore City's support for H.R. 10.

The council is pleased that this committee is persevering in its efforts to put in place a Federal economic adjustment mechanism which would assist economically distressed communities in facilitating new private investment and employment. The council, with its more than 1,000 public and private economic development practitioners, working in over 450 communities around the country, believes that the type of assistance provided through the proposed legislation is critical to the economic growth of our Nation's urban and rural areas.

The importance of this assistance is evidenced by the recent actions of the council's national policy committee which examined the current Federal development programs and considered the public works and adjustment assistance currently available from EDA and contained in H.R. 10 to be among the most effective and essential Federal development tools.

We in the Council for Urban Economic Development are very cognizant of the serious problem that the large Federal deficits present, and we recognize the need for fiscal restraint. However, we view the programs that are contained in H.R. 10 as investments in economic development, as investments that can effectively reduce the deficit rather than increase it, because of the increased Federal tax revenues derived from the private investment that will take place in these projects and through a lesser need for public assistance and unemployment compensation.

H.R. 10 is an efficient use of limited Federal resources in its programmatic design and potential impact. Programmatically, it mandates a substantial local match so that for each Federal dollar at least one and often two other dollars are required, and this does not take into account substantial spinoff investment which accompanies most public/private development efforts.

In terms of impact, the projects assisted by H.R. 10 will result in increased local, State, and Federal tax revenues which will more than make up for the initial Federal investment and provide additional resources for State and local governments. The funding requested in H.R. 10 is an investment. Rather than contributing to the Federal deficit, this legislation can reduce it through increased economic activity.

Let me illustrate how a Federal investment can result in increased jobs and investment. The Holabird Industrial Park is a 184-acre site. You may know it as the former Fort Holabird. That fort was closed down around 1970, and it was acquired with Baltimore City's funds in the late 1970's. With an $11.3 million EDA title IX grant and city funds, the city of Baltimore acquired and cleared the site, demolishing the barracks and the other structures that were on the property, and provided the necessary streets and utilities.

Today, 180 of the 184 acres are either sold, leased, or optioned, or otherwise committed. The industrial park contains 18 companies, employing approximately 1,000 persons, with a private investment up to this point of about $42 million, and additional plant construction planned.

Upon completion, we estimate that Holabird Industrial Park will contain about 2,500 employees.

At the same time, the existence of this industrial park was instrumental in Baltimore's retention of our General Motors assembly plant. General Motors needed 25 acres for employee parking lots so that the previously existing parking facilities could be used for the expansion and modernization of the plant. Because the city had this industrial park land, GM has stayed in Baltimore, thus retaining 4,000 jobs.

The modernization GM undertook amounted to $258 million. Thus, an initial EDA investment of $11 million has resulted in private investment of more than $300 million. The retention of thousands of jobs, and the creation of at least 1,000 jobs, and we expect at least 2,500 jobs.

I might also point out that had General Motors had to replicate this plant, which they would have done otherwise elsewhere, that the capital investment on their part would have been some multiple of the roughly $250 milllion that they spent in Baltimore. Thus, indirectly, the EDA expenditures in Baltimore have been capital conservative. They have helped the country conserve some of its available private capital.

In our previous testimony on this legislation, the Council described what we consider to be the most productive and appropriate role for the Federal Government in local economic development. Economic development is a process of adjusting to changes in the economic base. It is a constant process occurring in local, national, and global economies. Economic adjustment leads to temporary, and sometimes permanent, changes in demands for labor, availability of capital, and technology.

Areas which have borne the brunt of these structural changes have experienced the rapid and economically devastating impacts of disinvestment and unemployment. The ability of these areas to recover and to develop self-sustaining economies is often hampered by a poor investment climate. This can be due to various gaps in an area's economic infrastructure, including poor roads, insufficient wastewater treatment facilities, inadequately trained labor, and the lack of affordable capital among others. Without the proper amount and mix of economic assets, private investment will not occur.

When the right set of economic conditions exist, the investment will happen even in communities which have experienced severe economic problems. In Baltimore, we have been able to give very high priority to the development of biotechnology business because of the presence of our Johns Hopkins Medical Institution, and the University of Maryland Medical Institution.

In Baltimore, we were able to create 60 new jobs in the biotechnology field by meeting a firm's space needs. With a $1.2 million EDA grant and other public and private resources, a vacant building is now the corporate headquarters of a pharmaceutical firm, not only their corporate headquarters but also their research headquarters, and the employer of 60 people, and that firm has a tremendous potential for further growth. We are hoping that this facility located near the Francis Scott Key Medical Center will lead to other investments by the industry.

There is no doubt that the local public and private sectors have the primary responsibility for improving their community's competitive advantage for investment. However, the severity of some economic dislocations such as major plant closings, slowdowns in major industrial sectors, and the collapse of essential infrastructure can exhaust a locality's resources.

Even communities which have examined their economic growth potential and are seeking to stimulate startups and related new investment may be unable to effectively address a major economic disaster. However, with carefully targeted and timely assistance, these communities can improve their local environment for investment, support new and more productive business activity, and have a sufficiently solid economic base to respond to future adjustments. This is an effective and appropriate role for the Federal Government.

Baltimore is a city which has experienced economic adjustment, disinvestment, and unemployment. However, the careful use of public dollars has yielded new jobs and investment on which additional growth can occur. For example, by combining a $4.85 million EDA grant, and $2.5 million in city funds, we were able to acquire and modernize an eight-story vacant clothing manufacturing plant. Today, this 400,000-square-foot building is occupied by 21 small- and medium-size businesses of which 5 are minority owned. They employ more than 600 people. About one-third of these jobs are completely new, and the rest are retained. In addition, one of the firms has been so successful, one of the minority-owned firms, that it has established branches in Baltimore and in other cities, and has a total of about 350 employees.

This building, the Rawley Industrial Center, functions as an incubator and also as a resource for firms that are being displaced by other development projects in the city. I might add that it is 100-percent occupied.

The National Development and Investment Act recognizes the adjustment process at the local level. The flexibility in the use of funds allows communities to invest in them in a manner which is most suitable for the particular investment opportunity. The Council is particularly pleased that the legislation provides for locally administered revolving loan funds, and we have such a revolving loan fund in Baltimore. These have been used very effectively in many communities to facilitate business expansion and leverage private financial participation. Limiting the Federal contribution will hopefully lead to increased leveraging of other public and private resources and more carefully designed projects.

The development investment strategy outlined in H.R. 10 should encourage communities to evaluate their local economy's assets and liabilities and then design a series of activities to facilitate the type of private investments best suited to their particular economic position. In this way, localities will focus on a series of public and private actions to facilitate investment rather than a singular project.

The Council is also pleased that H.R. 10 is targeted to urban and rural areas based on poverty or unemployment, and the occurrence of a sudden economic dislocation. These communities are truly in need of the project and planning assistance provided under the legislation. We urge the Congress, in considering the legislation, to maintain the strict targeting language of the current bill.

It is essential that the assistance be provided to those areas which have an opportunity to stimulate private investment. The required development investment strategy should ensure that the funds are productively used for activities that maximize the area's competitive advantage and strengthen its overall ability to respond to and capitalize on the economic adjustment process.

Those communities which recognize their economic assets and know which industries have the greatest potential for growth in their local economy have the best chance for sustained economic growth.

I might point out that one of the industries that we in Baltimore have targeted for a number of years is that of tourism, which has grown considerably as an economic activity in Baltimore, and the EDA assistance that we have received over the years has played a part in that. The National Aquarium, which was funded primarily with city bond funds and proceeds from the sale of the former Friendship Airport did receive over $1 million in EDA assistance through the title I program, and also received about $1 million through one of the LPW grants. That is a very important element of the set of attractions that we have for tourism in Baltimore.

Also the nationally known Lexington Market, the public market in Baltimore, that is both a market that serves our people and the tourists, received a $1.2 million EDA grant for important renovations to the east market.

Those are two examples of how EDA has assisted Baltimore with a very important element of our readjustment strategy that is to further the growth of employment and investment in tourism.

We would like to offer a few suggestions for change in H.R. 10.

The $2 million annual limitation on assistance provided through this legislation could be needlessly restrictive for large and small communities pursuing major investment opportunities or suffering from severe economic dislocations, such as a plant closing. Rather than establish this limitation in the legislation, it might be better to wait a year or so so that we can evaluate the types, sources, and amount of requests for assistance. At that time, we can devise a limitation if necessary which reflects real demands for the funds.

Setting a limit now could hamper or skew development initiatives in large and small communities.

The $1 million limitation on the capitalization of RLF's may hinder its effective use in the areas of greatest need. The required local match and development investment strategy should be sufficient to ensure careful use of the Federal moneys. If a community feels that all or most of its EDA funds should go into the revolving loan fund, I think they should have the opportunity to make the choice.

The small businesses to be assisted through the revolving loan funds should be defined by the locality as part of their investment strategy. Shifting Federal definitions of small business can thus be avoided.

Finally, the assistance provided under title II could be critical to building the local capacity to devise and implement investment strategies. As stated earlier, those communities which have a clear understanding of their economies and their competitive advantage for certain types of investment have the greatest likelihood for devising and implementing public-private activities which will facilitate growth, investment and innovation.

These communities will also make the most productive use of the public and private resources available, including the resources provided through H.R. 10. Title II's assistance gives communities the ability to use not only H.R. 10's assistance, but also to coordinate infrastructure, business assistance, and job training activities in such a way as to promote long-term private investment and employment in our urban and rural areas.

This legislation is an important step in improving the Federal Government's role in assisting communities experiencing the jolts of unemployment and disinvestment due to shifts in our national economy. It can be the critically needed linchpin for coordinating public and private investment strategies at the local level.

On behalf of the National Council for Urban Economic Development, I would like to express our appreciation for the opportunity to appear before you today and for your continued efforts to shape a Federal program which recognizes the economic realities of our Nation's communities. I agree with you, Mr. Chairman, in your earlier remarks about the need to coordinate all of the programs in a very comprehensive sort of way, EDA, the SBA programs, the UDAG programs, each of these programs can do some things that the others can't.

We in Maryland do have a State Enterprise Zone Program. We have a particular project called "Park Circle Industrial Park" which is a very good example of how we have had to utilize a whole array of programs to encourage investment in the Enterprise Zone, not only the tax reduction advantage of the State legislation, but also EDA for infrastructure, UDAG to encourage some of the private investment, and a number of the State financing programs to encourage the creation of an incubator facility built by Control Data.

Thank you, Mr. Chairman.

Mr. **Nowak**. Thank you very much, Mr. Berkowitz, for your very fine statement. We have used the word targeting all day today, and I think that your statement targets right in on what we really have to hear from everyone in the country. I hope that that message is heard by every Congressman and every Senator also because I think it is necessary for us to go further into this economic development area to try to bring about a workable and complete concept for economic development.

You just mentioned the enterprise zone. Let me ask you, what has the State contributed to the enterprise zone concept in terms of its tax credits or subsidies.

Mr. BERKOWITZ. The State has authorized a 5-year reduction in real estate taxes. Real property taxes on new investment, not only existing investment are reduced by 80 percent. So a firm that would otherwise pay $100,000 in real estate taxes will pay only $20,000 during the first 5 years of its existence in the zone.

Mr. NOWAK. How do you define new business?

Mr. BERKOWITZ. It is defined in terms of increase in the assessable base within the zone. If there is an existing plant that puts an addition on its plant, that addition is eligible for the real property tax reduction. If there is a completely new plant, as is the case with the Control Data Business and Technology Center, that completely new facility will have an 80 percent tax reduction.

The other incentives that the State provides are job tax credits. For each additional disadvantaged employee hired there is a 15-year tax credit against the State income tax liability of the company in the first year, $1,000 in the second year, and $500 in the third year. For nondisadvantaged employees there is a $500 tax credit in the first year.

In addition, the State has created a small guaranteed loan program which is available for small firms with regard to their working capital and other capital requirements.

Mr. NOWAK. How big a geographical area is this enterprise zone?

Mr. BERKOWITZ. This particular one covers about 50 acres of land. There is another enterprise zone in Baltimore which covers several hundred acres of land. The size of the zone is dependent on the locality's application for the zone. Some of the zones in western Maryland are quite large.

Mr. NOWAK. When you look at a "new tenant" for a zone, one of the problems that came up with the Federal initiative in this area was, what do you do with a zone that is 2 or 3 miles in geographical area, and you have somebody come into the zone where they can reap the benefits of the tax credits that you talked about, and they have to compete with another party who is 1 mile outside the zone in selling essentially to the same customers within the county area?

Mr. BERKOWITZ. It is a very good question. The Maryland program requires that as part of the application for a zone that the political subdivision must formulate a management plan for the zone. Also the legislation limits the eligibility for these benefits to manufacturing and other kinds of economic activities that are truly more related to the economic base as opposed to retail.

We in our management plan have not provided the benefits for those kinds of activities that were more likely to serve the consumer market of the area. We have established certain criteria for eligibility of the benefits. For example, we don't want even a manufacturing firm to merely relocate from some other part of the city into the zone. For them to do that, they have to show that there is some physical or other inmpediment to their expansion at their existing location, and that by moving to the zone they will at least create one-third more jobs than they now have.

So, we try to build a number of safeguards into the management plan for the zone to prevent the abuse of the tax credits and other benefits of the zone.

Mr. **Nowak**. You make a good statement at page 3 of your testimony when you talk about the constant process occurring in our local, national and global economies, and how the Federal changes in trade and some other policies really do affect even growing economies when you look at the numbers that we have had over the last 2 years. You have to go back to 1951, I guess, to find growth numbers that even come close to it. Even with all of this movement forward in the gross national product figures, you still find that there are areas that are shifting from what may have been a very viable area 10 or 15 years ago, or 5 years ago, or 3 years ago, because of import penetration, and because of other impacts that are out there, or the strong dollar in combination with all of those, a certain industry or an area has been made noncompetitive. Then you have to work with all of the transitions: not only with management, but with the employees, which are tougher problems in many instances.

We think that your language, when you say that you think that H.R. 10 is moving in the right direction, we hope to build on that once we go through this rescission and the budget process over the next couple of months here.

There is no question that there are still going to be readjustments in this dynamic economy, and we will address that. What I am trying to sell here is that we have a dynamic situation and when you have that kind of economy, you are going to have more adjustments. If you are stagnant, the less problems you are going to have with adjustments.

The trade that has been enhanced, that is really just beginning. People talk about the trade deficit in terms of $125 billion, and I think that it is going to be just a small figure in just a few years because I don't think that the avenues of trade are open. The adjustments are going to come with much more heavy impacts also.

We appreciate your testimony. Let me ask you if you have information on the structure of the state enterprise. I would appreciate if you could send it to us with a listing of all of the "incentives," and the success in the movement that you have had into that zone.

Mr. **Berkowitz**. We will be glad to send that to you.

Mr. **Nowak**. I am sure that somebody has it in the State.

Mr. **Berkowitz**. Yes.

Mr. **Nowak**. Thank you very much.

Mr. Clinger.

Mr. **Clinger**. Thank you, Mr. Chairman.

Mr. Berkowitz, I, certainly, want to commend you and Mayor Schaeffer for the outstanding job that you have been doing. I don't know if any city has been more aggressive or more effective than your city in making the case to the various agencies of the Federal Government of your needs. You have a remarkable success record in that respect over the years. Maybe it has something to do with your proximity to Washington, but it has been a success that is unparalleled.

I think your testimony illustrates your success in creating jobs and putting people back to work. I am also happy to hear that your organization can support a 50–50 match, painful as that may be.

Mr. **Berkowitz**. It is painful.

Mr. **Clinger**. Yes. But clearly, one of the things that a 50–50 match does is to provide encouragement to the local people to engage in a meaningful process on the most cost-efficient basis that they can do so.

The $2 million limitation on assistance is a controversial issue, I grant you. It is somewhat arbitrary. I think that the experience with the EDA over the years has been that they generally do not get involved, with rare exceptions, in terribly expensive projects. I think Bonnie Newman testified yesterday that the average EDA amount for public works grants in fiscal year 1984 was $580,000. I don't think that it often goes over $1 million, or $1.5 million.

We are, after all, dealing with a fairly limited authorization level, even more limited over the years has been the amount appropriated for these programs.

So, I think that the concerns that particularly some of us from the rural areas have is that if we have no cap, New York City, for example, could, in effect, soak up the entire budget by one project, or it could be seriously eroded by one or two projects, and we are looking for diversification.

The alternative to that, to allay the concerns of the rural people, would be some sort of a division, two pots, if you will, an urban pot and a rural pot. It seemed to us that this would be a way to ensure, at least, that there was an availability to assist more areas.

We certainly do appreciate your presence here today. Again, I commend you for your success record.

Mr. **Nowak**. Mrs. Bentley, I am sure you are familiar with these programs, and I know that you need no introduction.

Mrs. **Bentley**. Thank you, Mr. Chairman.

I apologize for not having been here to properly introduce Mr. Berkowitz. Unfortunately, Baltimore, which he represents, is not part of my district, but we are so interrelated in the Greater Baltimore area that we work together on many projects. As it happens, the Maryland delegation was taking up a matter that was not directly affecting my district.

It may have been pointed out here, or it may not have, that the Baltimore Economic Development Corp., which is city funded, is also an excellent example of the private sector and the public sector working together. I think that many of the projects which Mr. Berkowitz has outlined here are perfect examples of the private sector and the public sector and Baltimore working together, as well as the proper coordination and use of funds from all of the levels of government.

I have had the privilege over the years to work with Mr. Berkowitz on trying to get various projects going, all of which meant jobs in Baltimore, and I can only give him my highest praise for his efforts and those of his staff in trying and endeavoring, and sometimes accomplishing and sometimes not, but you have to keep trying, providing work, employment for the people of Maryland.

I think that his group has done a commendable job. We are very proud of the State enterprise zone. When it was obvious that the Federal Government was not going to move on that, the State went ahead and did it because we felt that we had to have it.

There is a lot more that has to be done. I think that H.R. 10 will help in that direction. I can say to this committee that the Greater Baltimore area will certainly be a perfect example to this committee of what can be accomplished with help from the Federal sector.

Mr. **Nowak**. Thank you very much. The committee has appreciated your attention to this subject, and I am sure your constituency will appreciate it also.

We have, I think, a lot of restructuring to do in this area, a lot of new thinking perhaps as we go down the line here.

There is one other comment I might make. You are an expert in this economic development area, with hands on experience. I wonder if perhaps you could give some thought to seeing what we can do to coordinate better the types of programs that are out there, bringing all of the private and State resources into coordination with the Federal programs and have a structure that can pull together and complement each other so that we can get the maximum from all of the different agencies that are out there, instead of having this competitive or ad hoc activity where one project is attractive to one group, but when you look at the overall impact on the total area strategy it really doesn't fit.

Thank you for your patience in being our last witness today.

We will recess until tomorrow at 10 o'clock to receive more testimony.

[Whereupon, at 1:23 p.m., the subcommittee recessed, to reconvene at 10 a.m. Thursday, March 21, 1985.]

TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965, AND THE APPALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

THURSDAY, MARCH 21, 1985

House of Representatives,
Subcommittee on Economic Development,
Committee on Public Work and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2167, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

Mr. **Nowak**. In review of the 1984 EDA Program and the ARC Program, as has been our procedure, we will accept the statements that are written, in total, and insert them in the record. The witnesses may proceed as they so desire, knowing that their total statement is in the record for all the members' approval and scrutiny at a time when they have some leisure minutes to spend with the various expressions of interest in this legislation.

We will proceed. There are caucuses going on both on the Democratic side and the Republican side this morning, and members will have to be coming in and out. We hope you understand that doesn't show any lack of interest, but the procedures are moving to the House floor next week to mandate that an awful lot of material be covered in separate caucuses. And that's what has been happening, even though we won't have any floor interruptions.

Our first witness this morning is Michael Wenger, who represents the States of the Appalachian Regional Commission. He is the Washington representative. We want to welcome Mr. Wenger before the committee.

We want to let you proceed as you desire.

TESTIMONY OF MICHAEL R. WENGER, STATES' WASHINGTON REPRESENTATIVE, APPALACHIAN REGIONAL COMMISSION, ACCOMPANIED BY FRANCIS MORAVITZ, EXECUTIVE DIRECTOR

Mr. **Wenger**. Thank you very much, Mr. Chairman, and committee members.

I appreciate the opportunity to appear before this committee on behalf of the Appalachian Regional Commission. This committee has always been extremely supportive of the ARC. During the last two sessions of Congress, this committee, under the leadership of Representative Oberstar, has spearheaded the effort which resulted in the passage of ARC authorizing legislation in the House by margins of 3 to 1, and we look forward to continued support under the new leadership of you, Mr. Chairman.

Also, I am pleased that yesterday you heard from Governor Arch Moore of my home State of West Virginia. Few Governors have understood the program better, used it more effectively, and supported it more eloquently than Governor Moore.

As ARC States' Washington representative, I represent the collective interests of all 13 Appalachian Governors and their States. It is on their behalf that I appear before you this morning. I bring with me written statements in support of the commission from Governor Alexander of Tennessee, Governor Thornburgh of Pennsylvania, Governor Celeste of Ohio, Governor Collins of Kentucky, and Governor Robb of Virginia, and I respectfully offer them for the record.

Mr. **Nowak**. Without objection, that will be entered in the record.

Mr. **Wenger**. Thank you very much, Mr. Chairman.

[Statements referred to follow:]

STATEMENT OF THE APPALACHIAN REGIONAL COMMISSION BY GOV. LAMAR ALEXANDER OF TENNESSEE

I appreciate the opportunity to submit a statement in favor of the completion of the Appalachian Regional Commission's (ARC) "finish-up" program. As you know, at the request of the Congress, the Appalachian Governors submitted a request for an orderly phase-down of ARC, rather than an abrupt termination. The "finish-up" program, which received bipartisan support from all thirteen Governors, represented a compromise between the competing needs of the region for increased support from the federal government, and the needs of the nation to significantly reduce federal spending.

I supported the "finish-up" program in 1981, and I support it today. However, we are not finished. I know the ARC can not continue indefinitely, but I believe an agreement was reached in 1981 to continue the program for a reasonable time to allow the states to complete certain programs that had been initiated.

The "finish-up" program called for an extension of the non-highway program through 1987, with a total funding of $400 million. Under the program in fiscal years 1983-1985, the ARC has received $147 million, less than half of the anticipated amount. The highway program was to have been funded at $2.27 billion through 1990. However, only $326.5 million has been appropriated.

The "finish-up" program was a very difficult decision for me personally. I am deeply concerned about the growing deficit problems which this nation faces, and I know we must solve this problem or we run the risk of putting in jeopardy our financial stability in the years ahead. On the other hand, I know the problems facing the states and their local governments particularly in Appalachia. Data from the U.S. Bureau of the Census clearly indicates that, while Appalachia has improved significantly since 1965, the region remains substantially behind most other areas of the nation in economic opportunities and the quality of life. On top of this, the recent recession not only hurt the region more severely than the U.S. as a whole, but there is evidence that the fabric of our economy has substantially changed and many of the industries which have been the backbone of the regional economy may never fully recover.

We are not asking for increased funding. We are only asking for the completion of the "finish-up" program that was agreed upon in 1981.

I am sorry I was unable to deliver these comments personally. If you have any questions, I hope you will feel free to call on me.

STATEMENT ON THE APPALACHIAN REGIONAL COMMISSION BY DICK THORNBURGH, GOVERNOR, COMMONWEALTH OF PENNSYLVANIA

Since taking office in 1979, economic development has been the top priority of my Administration. We have established an overall economic development strategy to direct all available resources to help generate jobs for Pennsylvanians. Our strategy is comprised of three components:

Measures to encourage existing businesses to stay in Pennsylvania and expand their activities here;

Actions to increase the birthrate of small businesses, which will produce a major portion of the future net new jobs within the state; and

Efforts to attract to Pennsylvania new businesses with a high growth potential through a selective relocation strategy.

The Appalachian Regional Commission (ARC) Program has been a useful tool in our efforts to implement the Commonwealth's economic development strategy. The overall objective of the ARC Program in Pennsylvania is to accelerate job creation by assisting in the start-up and expansion of small entrepreneurial enterprises aimed at growing markets. To accomplish this objective, the Commonwealth's seven Appalachian Local Development Districts use ARC funds to provide an integrated set of expansion services for new and existing businesses.

The single most important service provided by the Local Development Districts to area businesses is financing assistance. Financing is arranged for new business starts or expansions using both public and private sources, including the new Pennsylvania Capital Loan Fund (PCLF). PCLF provides direct loans of up to $50,000 for manufacturing or research enterprises to assist business startups and expansions. From inception of the PCLF in July of 1982 to January of 1985, 111 loans totaling $5.6 million have been approved, resulting in business growth projected to create 3,195 jobs over three years. The $5.6 million of PCLF funds have leveraged 12 times this amount in private sector investment.

Another major area of assistance is the marketing of products. The Federal government itself represents a vast and growing market for Pennsylvania businesses. Therefore, government procurement specialists work at each Local Development District to help area businesses compete for Federal procurement contracts. The Appalachian Procurement Outreach Program has resulted in $19 million in Federal contract awards to 153 Pennsylvania firms since the program began in 1983. This successful effort is now being expanded to include non-Appalachian Pennsylvania. Foreign export specialists are also working at each Local Development District to help area firms compete more effectively in international markets.

Small business incubators, multi-tenant industrial facilities where small firms can begin operation, are yet another area of assistance in which the Local Development Districts are involved. Pennsylvania now has 18 operating small business incubators—more than any other state in the nation. The ARC has assisted in the development of three of these facilities. In addition, the enterprise development services of the Local Development Districts are made available to firms located in most Pennsylvania incubators.

The Local Development Districts are being linked with the Advanced Technology Centers of the Ben Franklin Partnership. This Partnership links private and educational resources, particularly research capabilities, to make traditional industry more competitive in the domestic and international marketplaces, to spin off new small businesses, and to help recruit new investment. For FY 1984-85, $850,000 of Ben Franklin Partnership funding has been provided to the Local Development Districts to assist with enterprise and technology development activities. During the first 22 months of the Ben Franklin Partnership, 316 firms have received assistance, resulting in the creation of 1,316 new jobs and the retention of 726 jobs that otherwise would have been lost.

The Local Development Districts also help link the resources of the state's Customized Job Training Program with the Federal Job Training Partnership Act to assist in meeting the training needs of expanding businesses. The Customized Job Training Program was created in July of 1982 in order to link state and federal education and training programs to help meet the specific job training needs of expanding businesses, particularly those using advanced technologies. By June 30, 1984, 4,800 Pennsylvanians completed training and were placed in new jobs or were promoted to upgraded positions.

In recognition of the accomplishments of the Local Development Districts, the Commonwealth's FY 1984-85 budget included an increase in state funding from $100,000 to $400,000 to help expand their efforts. For FY 1985-86, I have requested yet another increase to $600,000.

The Commonwealth has utilized the Appalachian Development Highway Program to enhance our efforts to stimulate economic growth and development in the ARC region as well as to provide needed regional highway improvements. The principles which have guided the completion of our Appalachian highway program were agreed to by all the region's governors in 1981:

Complete segments within each state that carry the most overall traffic and contribute the most to regional economic development opportunities.

Complete segments which eliminate the most restrictive gaps in continuity.

Complete segments expected to carry the largest volume of coal traffic.

Complete segments which would complete the most critical state line crossings.

A significant ARC highway investment during my Administration has been the construction of Route 22 from Altoona to Ebensburg in Blair and Cambria Counties, which was opened to traffic in December of 1983. The improved access provided by this new highway is already having an economic impact in that area. Other ARC-supported highway projects currently under construction include the State-Line Crossing in Erie County, linking Interstate 90 with New York's Southern Tier Expressway; construction of Route 220 in Blair County, linking Altoona to the Pennsylvania Turnpike; and construction of the Mansfield Bypass on Route 15 in Tioga County, also known as the Appalachian Thru-Way. These road improvements and completions are essential to the economic rejuvenation of Appalachian Pennsylvania.

Both the ARC highway and non-highway programs have proven to be useful tools for Pennsylvania's economic development initiatives. The Local Development Districts of Pennsylvania have undertaken an innovative and action-oriented enterprise development effort in support of our state's economic development strategy.

The Appalachian Regional Commission is unique in that it is one of the only Federally-funded programs which we have been able to completely integrate into our state economic development strategy. The partnership approach on which the ARC is based allows the program to have greater impact than most federal programs because it can be linked to state-level strategies and efforts.

Thank you for this opportunity to provide comments on the Appalachian Regional Commission programs in Pennsylvania.

STATE OF OHIO
OFFICE OF THE GOVERNOR,
Columbus OH, March 21, 1985.

Hon. HENRY J. NOWAK,
Chairman, Committee on Public Works and Transportation, Subcommittee on Economic Development, Rayburn House Office Building, Washington, DC.

DEAR CHAIRMAN NOWAK: Nearly twenty years ago, this nation and thirteen of its sovereign states embarked on a unique experiment in federalism through the creation of the Appalachian Regional Commission. It has served Ohio and the nation well. Your Subcommittee now has before it HR 10, which if enacted, would permit the Appalachian Regional Commission to complete its finish up program. I wish to join my colleagues of the twelve other member states in urging your favorable consideration of this important legislation.

My reasons for urging your favorable consideration are many. However, foremost among them is my belief that the Commission represents one of the best models for state and federal cooperation. Simply stated, the Commission is a preferred way of conducting business. Priorities, fund allocations and program requirements are not dictated to the states and localities by faceless regulations. Instead, the Governors and the Federal Cochairman who constitute the Commission are granted the opportunity to negotiate these matters in the best interests of the states, the region and the nation. Moreover, responsiveness to local needs is assured by having development projects originate from communities through local development districts. These principles of intergovernmental cooperation merit continued support.

The Commission also stands apart from other programs in its balanced approach to development of the Appalachian Region. Few domestic assistance programs have incorporated and sustained an emphasis on both human development and physical development needs of the people and communities. While the highways program has greatly reduced the region's geographic isolation, access to quality health and education opportunities have also been significantly upgraded through the Commission's investments. The Congress and the Commission can be justifiably proud of its pioneering approach to building healthy communities.

The Appalachian Regional Commission program has also targeted federal assistance to people and communities most in need. Through 1984, the Commission's programs have focused more than half a billion dollars in combined federal, state and local funds on the priority needs of Ohio's twenty-eight Appalachian counties. Less than one-half of this total has come from Commission funds. These investments have created jobs, established health and education services that were previously nonexistent and new hope to citizens of a long neglected area of Ohio.

Let me now turn to the impressive record of accomplishment achieved in Appalachian Ohio with the Commission's assistance. Among the most significant positive trends are:

Reversal of Population Outmigration. Countering decades of population loss, Appalachian Ohio's population increased between 1970 and 1980.

Increased Job Opportunities. Between 1955 and 1980, Appalachian Ohio registered a net increase of 80,000 jobs with an annual employment growth rate 175 percent greater than that for the State of Ohio as a whole for the same period.

Improved Educational Attainment. The proportion of population 25 years or older having received high school diplomas in Appalachian Ohio now exceeds the state average.

Improved Health. The incidence of infant mortality in Appalachian Ohio has been halved between 1970 and 1980. Appalachian Ohio now has a lower rate than that for Ohio as a whole.

These accomplishments provide strong evidence of the Commission's success. Yet, the benefits have not been uniformly distributed among Appalachian Ohio's counties. The job is simply not finished. Masked in the indicators of accomplishments are the following remaining needs:

Increased Personal Income. None of Ohio's twenty-eight Appalachian counties exceed the state per capita income average. Moreover, fully ten percent of Ohio Appalachian families were at or below poverty level income in 1980.

Chronic and Structural Unemployment. Appalachian Ohio's overall unemployment rate still exceeds ten percent. Hardest hit are those counties with structural unemployment in coal and steel industries where unemployment rates persist at levels exceeding fifteen percent.

Incomplete Ohio Appalachian Development Highway. My FY 85/87 Transportation Budget includes seven highway projects eligible for support from the Commission's Highway program. Four of this total are scheduled for cost sharing by the Commission and their completion will be seriously jeopardized if future funds are not authorized by Congress.

I believe that the past record of proven success and the remaining agenda of unmet needs in Appalachian Ohio provide compelling evidence which argues for reauthorization of the Appalachian Regional Commission through enactment of HR 10. Basic provisions of this legislation will provide Ohio and its twelve other sister states with the required fiscal resources and desired flexibility to complete our commitment to the Appalachian Region. I, therefore, strongly urge the subcommittee to give favorable consideration to this important legislation.

Sincerely,

Richard F. Celeste, *Governor.*

Prepared Statement of Gov. Martha Layne Collins

Thank you for this opportunity to testify on H.R. 10, "The National Development Investment Act of 1985."

It gives me the chance to discuss the progress made by the Appalachian Regional Commission in continuing to make life better for millions of people in the 13 Appalachian states. This progress has demonstrated the soundness of the ARC Governors' Finish-Up Program, which could be carried on under H.R. 10.

Before I discuss the finish-up program, however, I must go on record taking strong exception to the Administration's efforts to abolish the ARC forthwith. In effect, the administration is in the position of someone who has thrown a lifeline to a drowning person, pulls them almost to safety, then cuts the rope and watches them struggle when just a little more effort would make the difference.

The administration suggests in a rhetorical sleight-of-hand that Appalachian development hinges on the nation's economic recovery. Then it catalogues the very reasons why the region is not likely to share fully in the recovery.

To me, these reasons are a compelling argument for the Governor's Finish-Up program.

Since residents of the region depend heavily on mining and manufacturing, unemployment remains high in many areas. In Kentucky, the official unemployment rate remains as high as 15 percent in some coal counties. The real rate is higher.

These counties will not prosper as a result of a general recovery; nor will they be able on their own to finance the sewer and water and other projects that are necessary parts of development.

Their tax bases have shrunk; revenues are down. The prospects for anything approaching full employment are dim indeed. Taken together, these factors combine with other budget cuts to put these counties at a distinct disadvantage when it comes to making the investments that can spark development.

These counties and others across the region need the life-line offered by the finish-up program—a program that is working.

Consider these points:

The health finish-up program is being completed this year, as scheduled.

Under the distressed counties program, the poorest Appalachian counties have received timely aid during a period of great economic stress.

Each dollar of the $77 million in ARC jobs and private investment money going to the Appalachian states in 1983-1984 triggered almost seven dollars in private investment.

These are among the reasons the Appalachian Governors are proud of the finish-up program.

We are equally proud of how we have met our commitment to you in moving toward completion of the Appalachian Development Highway System. The Appalachian States are carefully allocating ARC highway funds as well as their own to complete the stretches that most severely limit the full use of this system, a system that has opened Appalachia to fuller economic development.

Through the years, the states have demonstrated time and again the high priority they place on these roads by commiting their own money to them. In addition to matching ARC funds with state funds, the states have taken the initiative to put up their own money for ADHS roads when ACR money was not available in a timely fashion. In Kentucky alone, for example, we currently have $112 million outstanding in such pre-financing.

Beyond these measures, the Appalachian states took other steps to improve the highway system in the region. Again in Kentucky, we spent more than $309 million on three highways tying in with the Appalachian Development System: almost $76 million on the Mountain Parkway; more than $121 million on the Daniel Boone Parkway; and more than $112 million on the Cumberland Parkway. Much of this investment was raised through bonds supported by tolls, the first of which we are paying off this year. In making this substantial investment, we in Kentucky ensured better use of the ADHS.

These figures are evidence that the Appalachian states are willing to do their share.

Through the finish-up program, these states are asking for the chance to continue a partnership that has been a vital part of progress in the region.

With ARC help, for example, Appalachian Kentucky has cut in half the percentage of people living in poverty. At the same time, education, health care, housing and community services have been markedly improved.

The administration here in Washington subscribes to the idea that better education is an essential element in building a better economy. And in Kentucky, as elsewhere in the region, we are making an all-out effort to stretch our limited resources to improve our schools. We will be hamstrung in our efforts if we must absorb further cuts in ARC along with other federal cuts.

Since 1981, 22 governors of the 13 Appalachian states, Republicans and Democrats, have enthusiastically endorsed the ARC program authorized in H.R. 10. In a recent meeting of the National Governors' Association, the Governors of all 50 states endorsed it.

It is an effective use of federal dollars. Everyone says the program works. We hope, therefore, that the House of Representatives will pass H.R. 10 by the wide margins it won in the last two Congresses.

COMMONWEALTH OF VIRGINIA,
OFFICE OF THE GOVERNOR,
Richmond, VA, March 27, 1985.

Hon. HENRY J. NOWAK,
Chairman, Subcommittee on Economic Development, Committee on Public Works and Transportation, Rayburn House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: I am writing to advise you and the other committee members of my support for the continuation of the Appalachian Regional Commission (ARC) Program.

I share your concern for the serious problems posed by the federal budget deficit. Even in this period of retrenchment, however, we must continue to provide some level of support for those in extreme need.

In that regard, the ARC Program has been especially helpful to our citizens in the western and southwestern part of Virginia where unemployment remains high and the standard of living is low for many of our citizens. Past appropriations have allowed us to improve health care, housing, transportation, create jobs, and provide essential community services to this region. It is important that we continue the ARC program and use these funds on projects designed to enlist the private sector to create new jobs.

I trust you and other members of the subcommittee will consider the benefits the ARC program has provided region-wide as you continue your deliberations. I would be happy to provide more specific information on the Virginia program.

Sincerely,

CHARLES S. ROBB.

Mr. **WENGER.** In 1981, in response to a congressional request, the 13 Appalachian Governors unanimously agreed to and submitted to the Congress recommendations for an ARC Finish-Up Program. The program narrowed ARC's focus and provided a reasonable, responsible, and responsive way to complete the efforts in progress as opposed to the abrupt termination proposed by the administration.

It is testimony to the ARC process that nine Democratic and four Republican Governors could agree on a compromise, that this compromise could achieve strong bipartisan support in this body of the Congress, and that our support at the grassroots level has remained determined and overwhelmed.

The biggest and most difficult compromise was with the highway program. In 1981, the cost to complete the Appalachian Development Highway System was estimated at $7 billion. The Governors recognized that such a level of Federal support was unlikely, so they pared back the system by more than 500 miles, or approximately 20 percent, agreeing to include in the Finish-Up Program only the most critical remaining gaps. They cut the cost of completion to $2.27 billion. And furthermore, they committed to building those remaining 500 miles with other resources, recognizing, of course, that this would take much longer.

Despite your strong support, the Governors' recommendations have not become law. Beginning with fiscal year 1983, we have not had an authorization. We have received an annual appropriation; however, the level has been less than one-half the level recommended by the Governors for their Finish-Up Program.

Nonetheless, the Governors have, beginning in fiscal year 1983, implemented the Finish-Up Program within the constraints of the limited dollars available. At their meeting in July 1982, they adopted guidelines for a much narrower, limited program, guidelines which, in fact, reflect the provisions of H.R. 10, and they have functioned within those strict guidelines. They have, in fact, kept faith with this Committee.

As a general statement, it can be said that the Finish-Up Program has made significant progress toward addressing infrastructure, health, and manpower problems in the region. The program has followed the intent set forth in the Governors' recommendations.

The largest segment of the Finish-Up Program, other than highways, is the Jobs and Private Investment Program. It has made $77 million, including recoveries and transfers, of ARC assistance available to the States. In the first 2 years of the program, approximately $70 million was approved for 283 projects that helped create 22,737 jobs, retain an additional 20,000 jobs, and attract approximately $593 million of private investment. Areas of investment included housing, community and industrial development, enterprise development, education, and employer-related childcare.

I might add, Mr. Chairman, that the leveraging of ARC dollars to produce private investment at a ratio of better than 8 to 1 is a perfect example of one of the great strengths of the ARC.

The second segment is the Distressed Counties Program. During the first 2 years of this program, the participating States spent $21.7 million in ARC assistance, for 107 projects. Of the 107 projects, 92 projects, or 86 percent, directly related to improving the water/waste disposal conditions in the eligible areas, strengthening the major objective of the program.

Finally, under the Health Program, the goals that were established have largely been realized. During the first 2 years of the program, approximately $8.5 million in ARC assistance was approved for 91 projects. The implementation of these projects will provide basic primary care services to 230,000 persons and prenatal care to approximately 23,000 mothers.

Further success of the program is highlighted by the fact that 268 National Health Service Corps physicians were successfully placed in the region. Placing of physicians has lessened to some degree the need for federally assisted primary care services.

For all aspects of the program, private sector involvement has increased and State and local governments have assumed greater financial responsibility, even at a time when the demand for resources has been the greatest.

The staff of the ARC has done a review of program accomplishments for fiscal years 1983 and 1984, and I am pleased to submit this report to you today.

Despite the accomplishments outlined here and in this report, however, significant problems remain. Progress toward the Governors' goals has been showed by limited funds and economic conditions. Unemployment remains higher, per capita income and educational attainment remain lower, and the need to complete the base for future economic growth is greater than ever.

With the program review, I am submitting a chart comparing cumulative appropriations from the Congress for fiscal years 1983 through 1985 under the Finish-Up Program, comparing that with the balance remaining to complete the finish-up effort. At current levels, we can continue to make progress toward our goals, but achieving parity of economic opportunity with the rest of the Nation remains a long way off.

FINISH-UP PROGRAM CUMULATIVE ALLOCATIONS—1983-90

[In thousands of dollars]

	Cumulative appropriations 1983-85			Unappropriated balance			Grand total
	Nonhighway	Highway	Subtotal	Nonhighway	Highway	Subtotal	
Alabama	17,643	41,866	59,509	22,776	194,089	216,865	276,374
Georgia	8,270	13,727	21,997	13,942	87,442	101,384	123,381
Kentucky	17,215	38,400	55,615	32,902	255,679	288,581	344,196
Maryland	3,973	14,595	18.568	8,412	96,506	104,918	123,486
Mississippi	10,779	22,633	33,412	15,645	91,588	107,233	140,645
New York	6,702	23,499	30,201	12,889	154,161	167,050	197,251
North Carolina	8,690	9,860	18,550	17,143	60.309	77,452	96,002

FINISH-UP PROGRAM CUMULATIVE ALLOCATIONS—1983-90—Continued

[In thousands of dollars]

	Cumulative appropriations 1983-85			Unappropriated balance			Grand total
	Nonhighway	Highway	Subtotal	Nonhighway	Highway	Subtotal	
Ohio	8,488	10,127	18,615	15,515	61,679	77,194	95,809
Pennsylvania	14,122	58,156	72,278	25,576	353,154	378,730	451,008
South Carolina	6,141	4,672	10,813	12,972	13,543	26,515	37,328
Tennessee	15,473	27,932	43,405	29,956	181,417	211,373	254,778
Virginia	6,471	10,096	16,567	12,457	63,521	75,978	92,545
West Virginia	16,610	47,969	64,579	27,815	318,380	346,195	410,774
Subtotal	140,577	323,532	464,109	248,000	1,931,468	2,179,468	2,643,577
Other	6,423	3,001	9,424	4,000	12,999	16,999	26,423
Total	147,000	326,533	473,533	252,000	1,944,467	2,196,467	2,670,000

Mr. WENGER. Yesterday you heard from Governor Moore. Today you will hear from Alabama Highway Director Ray Bass and from former Federal co-chairman Al Smith, appointed by President Carter, and Donald Whitehead, appointed by President Nixon. Next Tuesday you will hear from a panel of local development district directors from Kentucky, Pennsylvania, North Carolina, and Georgia, and perhaps from other Governors. These witnesses reflect the strength of the partnership which the ARC has built: the Federal, State, and local partnership, the bipartisan partnership, and the public-private partnership. It is this partnership, unique among Government programs, which ensures the most effective use of scarce resources.

This partnership continues even today, as local and State officials develop needed projects within the focus of the Finish-Up Program and the current Federal cochairman approves these projects, works with the Governors and local officials to ensure effective implementation, and in fact uses the process creatively to generate new ideas for addressing special problems in the region.

In concluding, I would like to quote the final paragraph of Governor Thornburgh's statement. I quote: "The Appalachian Regional Commission is unique in that it is one of the only federally funded programs which we have been able to completely integrate into our State economic development strategy. The partnership approach on which the ARC is based allows the program to have greater impact than most Federal programs because it can be linked to State-level strategies and efforts."

Governor Thornburgh's statement is consistent with the views of every Appalachian Governor under whom I have served, who have called it everything from "the best government program they work with" to "a model of how the system ought to work in this country." Governor Alexander of Tennessee, in giving testimony in 1982, said,

> The fact is the ARC structure does a better job of New Federalism than almost any other structure I know about. There is a minimum of Federal bureaucracy, a maximum of local decision making, and the end result has been effective use of scarce dollars.

It's consistent with the resolution adopted by the Governors on February 23, it's consistent with the National Governors' Association resolution adopted on February 26, which endorsed multistate regional development strategies and programs and supported the ARC Governors' finish-up plan.

Ladies and gentlemen, on behalf of the Governors of the 13 Appalachian States, I thank you for this opportunity, and I assure you not only of the Governors' commitment to the ARC, but also of their desire and willingness to work with you in the development of any new economic development initiatives.

And I thank you very much.

Mr. **Nowak**. Thank you very much. We appreciate your statement and your offer to work with us as we go down the line with both the EDA and the ARC portions of this legislation.

You indicate in your statement that the largest segment of the finish-up of the programs other than for highways is the Jobs and Private Investment Program, and that $77 million has been expended in that area. I wonder if you could give us a more detailed explanation of the kinds of projects that that has funded.

Mr. **Wenger**. I would refer you to the section concerning the program which is contained in the program accomplishments that I have submitted for the record.

Mr. **Nowak**. Thank you. That will be included in the record.

I might advise all the panelists who testify today that we will have time set aside for members to submit questions to the individual witnesses who testify so that we can receive written responses to complete a total record before we move further with this legislation.

Mr. **Wenger**. Certainly. A number of examples come to mind. The ARC, although not directly under the Jobs and Private Investment Program, builds access roads to industrial parks where there is a promise of private sector jobs. We would provide training for prospective employees of industries that are opening up in a particular area of the region. We would provide, perhaps, water and sewer assistance to an industrial park where there is a promise of private sector jobs.

And yesterday there was some discussion of the Pennsylvania Private Enterprise Development effort, which is perhaps the best example of how this money is being spent.

I would point out that under this Jobs and Private Investment Program there is virtually no speculation. The projects that are approved are projects that have a promise of private sector commitment, private sector investment, private sector jobs.

Mr. **Nowak**. We're trying to build a case for hard dollars into economic development by funneling through this program. Whether it's an industrial park or whether a revolving loan fund is set up, I think the committee is interested in knowing the kinds of successes that that has generated with the small private investment through the program.

Mr. **Wenger**. Certainly. I think you will find, Mr. Chairman, in Governor Thornburgh's statement a discussion of their efforts in Pennsylvania.

Mr. **Nowak**. All right. Also, I believe you were here yesterday when Federal cochairman Pizzano spoke and gave her testimony, which I think was one of the few times this committee has received a broad-based, comprehensive analysis of what has happened over twenty years from the administration's point of view. And she had, I think, made some points, especially her second and fourth reasons, for opposing some portions of H.R. 10.

I wonder if you could answer. Let me just paraphrase the second. She said, "I believe that the most serious economic problems remaining in the region are the ones unlikely to be solved by ARC resources and processes, ones designed 20 years ago to deal with different problems in a wholly different economic climate."

I wonder if you could respond to that in light of what we just talked about, the different use of money 20 years ago compared to today.

Mr. WENGER. Certainly. First, I would recall Congressman Perkins, who made the point yesterday that there are still some of the problems of the 1960's remaining in the region that need to be resolved. And the ARC Program is attempting to resolve those problems.

I would point out that the Governors, in 1981, agreed to a compromise Finish-Up Program. They agreed that the program should not go on forever. They agreed that there had to be an end point, and that although all the problems of the region would not be solved, that they would finish up the program in a 5-year program with 8 years for highways. We're working toward that.

But there are still a number of problems that are left unaddressed to this date. I point out corridor G in West Virginia, for example. Governor Moore referred to it yesterday.

If we don't have continued ARC funding to complete the highway system, this scaled-back highway system, you will have a situation where, in West Virginia, you have corridor G, which runs halfway to Williamson and then turns into a two-lane mountain road, so that the effort to open up southern West Virginia to economic development as a result of the building of corridor G will essentially go for naught, the money that's already been invested in building this portion of corridor G, will go for naught because the two-lane mountain road will serve as a barrier to further economic development in the region.

We have a situation with health care. We've now virtually completed our primary health care effort, the goals we set for that program, but we needed these 3 years to get the job done. In the distressed counties program we still have counties in the region where basic water and sewer systems are lacking, and we feel an obligation to address that.

We still have a situation where per capita income is lower than the national average in all but 5 counties. Unemployment is higher than the national average in all but 60 of the 397 counties.

And finally, I would make reference to the ARC process, because when we talk about the remaining needs or ones unlikely to be solved by ARC resources and processes, it's my view, and I think the Governors' view, that the ARC process is applicable to a broad range of problems, not only the problems that we've dealt with in Appalachia for the last 20 years, but a broad range of problems that have to be dealt with in this country.

It creates a local-State-Federal partnership unique among government programs. It is a process which is strikingly similar to the sort of philosophy that this administration talks about, that partnership about sharing power, about getting Government off the backs of the people. This program does it better than any other Government program that I know. And I can quote numerous Governors who say it does it better than any program they've ever worked with.

And so I think that even when the job in Appalachia, the job set forth for the Appalachian Regional Commission is done, we ought to take a long, hard look at the lessons learned from the ARC process and not abandon that as well.

Mr. **Nowak**. Thank you very much.

Let me call on our colleague from New York, Congressman Boehlert.

Mr. **Boehlert**. Thank you very much, Mr. Chairman.

Mr. Wenger, yesterday you were here and you heard Mrs. Pizzano, and she provided us with these brightly colored charts which indicated that there are a number of jurisdictions within the region where there is relative prosperity, employment has improved dramatically.

The point that she made is, I think, that we should declare that we won the war and just go off to something else. I don't share that view.

Let me ask this. Do you think the Governors are doing the job that I would like them to do in terms of targeting the dollars for projects in the most distressed areas of the region?

Mr. **Wenger**. There is no question in my mind that, by and large, the money is going where it's needed the most.

I would make one other point. I spent a number of years in Beckley, WV, and a number of years in Charleston, WV. One of the things that I think needs to be realized is that in Beckley, Raleigh County, WV, and Charleston, Kanawha County, WV, you will likely find that the unemployment rate is relatively low compared to the rest of the region. But I think what you'll find is that those counties serve as an employment base for surrounding counties where the unemployment rate is very high.

For example, Clay County, I would guess that of the people living in Clay County, WV, where the unemployment rate is unacceptably high, most of them are working in Kanawha County. The same is true, I would say, in southern West Virginia; a number of residents of Wyoming County or Fayette County or other counties surrounding Raleigh County, where the unemployment rate is high, are working in Raleigh County.

So if the Governor of West Virginia puts assistance, job-creating assistance, into Raleigh County or into Kanawha County, he is in fact assisting employment in surrounding counties where unemployment is extremely high.

Mr. **Boehlert**. Let me ask you also about how many revolving loan funds you are aware of that have been financed through ARC.

Mr. **Wenger**. I can't answer that question myself. With your permission, I would call on the executive director.

Mr. **Boehlert**. Fine.

Mr. **Moravitz**. The loan funds, Mr. Congressman, are largely in Pennsylvania, New York, and Tennessee, three of the States that use them.

Mr. **Boehlert**. Why don't you sit down, if you will.

Mr. MORAVITZ. Surely.

Mr. BOEHLERT. And tell us a little bit about your experience with these revolving loan funds.

Mr. NOWAK. If you could just identify yourself, Francis, for the record, so that our recorder will have that information.

Mr. MORAVITZ. I am Francis Moravitz, of the Appalachian Regional Commission.

We operate loan funds in three of the States. As Mrs. Pizzano indicated yesterday, we have a limitation built into our law that restricts the flexibility of the Commission to provide assistance directly to private for-profit organizations. The exception is in the area of energy, and therefore our experience with revolving loan funds and other direct assistance to for-profit organizations will be limited.

However, in those States that we have operated loan funds, we have two types of experience. In Pennsylvania you have a State revolving loan fund that operates through the local development districts, which works in conjunction with loan funds operated directly by the districts themselves.

The general approach is to limit ARC participation to about 20 percent of the total loan; in other words, there is the front-end risk-taking with the Federal dollars that we provide. The projects and the loans are administered by loan committees both at the district level and the State, and those loan committees, for the most part, consist of bankers and people who are familiar with loanmaking procedures.

Mr. BOEHLERT. Do you have any cooperative arrangements with EDA funds, too?

Mr. MORAVITZ. Yes, sir. The EDA funds in Pennsylvania, for example, are commingled with the ARC funds, and we try to make our loans complementary one to the other, so that the energy-related activities—for example, the conversion of an oil-fired boiler to a coal-fired boiler, for example—would be the type of thing that we could do, where EDA would have more flexibility and could come in, step in, and provide additional funds.

Also, in Pennsylvania the State is providing direct loan funds, so that a commingling of Federal funds and ARC-EDA-State funds combine with private lending activities.

Mr. BOEHLERT. Is it fair to characterize this aspect of the overall program as one of the most successful?

Mr. MORAVITZ. Without question, this one gives us the most leverage with the private sector.

Mr. BOEHLERT. And if you were developing the big "wish list" to submit, would you also make a notation on that wish list that the demand for dollars far exceeds the supply in this area?

Mr. MORAVITZ. Oh, absolutely, yes, sir. That's certainly correct.

Mr. BOEHLERT. Thank you.

Mr. Wenger, one last question before I relinquish my time. We have the figures for the Finish-Up Highway Program. And I am noting that in each year starting with fiscal year 1986 the dollar amount requested increases. I think I have the explanation for that, but I would like to hear your version. Are we talking about constant dollars? Are you factoring in inflation?

Mr. **Wenger**. We factored in a 5 percent inflation rate from the $215 million level at which the Governors first made their projection.

Mr. **Boehlert**. All right. The methodology used initially to draw up these figures, is that still valid, do you think?

Mr. **Moravitz**. Yes, sir. We experienced during the last couple years of the Highway Program some moderation of inflation. There were some hungry contractors out there when some of our larger projects came in. For example, in Maryland, the Sidling Hill project came in substantially lower than we had estimated. And our figures, which we've tracked very carefully, suggest that we're pretty much on target for those finish-up projects that we've identified.

Mr. **Boehlert**. Thank you very much.

No more questions.

Mr. **Nowak**. Thank you very much.

Next our colleague from Maryland, Helen Bentley, who has participated in all these hearings. And she has in the ARC, three counties that are included in the program in Allegany, Garrett, and Washington. I don't believe any of those are particular to your constituency, but certainly we all represent the States as well as our own 550,000 people.

Mrs. Bentley.

Mrs. **Bentley**. Thank you, Mr. Chairman.

I noticed, Mr. Wenger, that you didn't refer to Maryland in your statement. Did the Governor not have any statement to send along with you?

Mr. **Wenger**. No, Mrs. Bentley. What we tried to do is avoid overkill. I could, without any question, in a matter of a couple of hours get statements from all 13 Governors. But we tried to avoid doing all 13 every time we do this.

We have a State cochairman every year. This year it's Governor Harris of Georgia, who testified before the House Appropriations Subcommittee. Governor Hughes of Maryland was our States cochairman last year and testified to the Congress.

Mrs. **Bentley**. What specific projects is Maryland developing in conjunction with the Appalachian Regional Commission in those three counties?

Mr. **Moravitz**. One of the major emphases that Maryland is giving this year and the last 2 years has been in the area of housing. They've discovered that not only is housing something that is very badly needed, in very large demand, but it also produces an economic activity, it provides jobs. And once again, under the Finish-Up Program, our funds are commingled with State revolving funds, so that the Commission provides a write-down at the very beginning of the project for site development costs and any front-end costs, and mortgage funds are then provided through your local lenders, private lenders, or through the Maryland Housing Finance Agency.

Mrs. **Bentley**. Thank you very much.

Mr. **Nowak**. Thank you.

I just want to take a brief moment to acknowledge the presence of Congressman Dean Gallo, who is a new Member from New Jersey and who has started to read the background into this legislation. I am sure he will be a very active member as we proceed with marking up this legislation.

Let me just try to summarize some of the things you have said. The overall message, I guess, is that the mission is not over and that you have areas that still are not within the cycle of growth and haven't been.

I might just add to that that, looking at the figures that were supplied by the Federal cochairman yesterday, that there is another entry into this whole dynamic free enterprise process in the economy in that your unemployment, which seems to have peaked several years ago, has at least in the area of hard-core manufacturing greatly decreased and in fact is somewhere to the extent of 356,000 "manufacturing" jobs.

And when we look at the differential between manufacturing and the service sector, even though your figures show that you did have some slight improvement in the service sector side, the economists would tell us that, depending on the type of manufacturing job, that that will produce 2.1 to as high 3.8 or 3.9 jobs in the service sector.

If you have continual erosion of that manufacturing sector, I would think it's going to be very difficult to try to overcome that heavy manufacturing loss that you have sustained. And I would think, in addition to the problems that you did have, the new economy that you're working in and facing, it's going to make it even more difficult, hence the shift away from perhaps the softer dollar use which doesn't leverage jobs and economic employment, especially in the manufacturing sector, would become a priority.

And I am trying to urge this on the EDR's as well as, of course, the Appalachian Regional Commission to try to use those dollars to leverage out the manufacturing job area, so that you can pick up with less effort the service sector jobs which seem to follow in many, many areas of the country.

I wonder if you could comment on that.

Mr. **Wenger.** Well, I think that's right. I would simply say, Mr. Chairman, that it seems to me that the nature of the Appalachian Regional Commission is such, the process, that it lends itself to the flexibility that enables Governors to modify their programs and their efforts to address these kinds of new problems as they arise.

I think it's one of the geniuses of the ARC process that they're able to do this without the kind of bureaucratic redtape that one finds in some other Federal agencies.

I would simply support your figures, that employment in Appalachia from March 1980 to March 1983 there was a decrease in manufacturing employment of 356,000, a decline of 16 percent, a decline in construction of 20 percent. Clearly, the nature of the economy in the region, as the nature of the economy in the Nation, is changing, and I think our Governors, through this process, have the flexibility to respond to that.

Mr. **Nowak.** When you look at that manufacturing area, I think there are many things besides to cause that shortfall in employment. When you look at some of the impacts again, we have to turn to Federal trade policies, the strength of the dollar, and the mix of adjustments that are in the economy now that have detoured the growth in your manufacturing area.

If there's a Federal presence, what I hope we will bring the administration to realize is that we should have at least a minimum Federal presence to offset those direct and indirect effects of Federal policy.

We're going to move forward, as you know, in hearings later on to examine that much more closely once we get over this funding problem that the administration has sent over with regard to the rescision within our own budgetary process.

But we appreciate your testimony.

Thank you very much.

Mr. WENGER. Thank you very much, Mr. Chairman.

[The following was received from Mr. Wenger:]

PROGRAM ACCOMPLISHMENTS: FY 1983-1984

APPALACHIAN REGIONAL COMMISSION

PREFACE

For the past two fiscal years the Commission's area development program has been operating under policies of the ARC Finish-Up Program described in the Governors' Report To The Congress. That program requested by Congress and subsequently approved in appropriations legislation has been reviewed with the Appalachian states and the Federal Co-Chairman by ARC staff. The review addressed the following:

- Identification of issues that affect project development.
- Effectiveness in meeting objectives and carrying-out economic development strategies outlined in the Governors' Report.
- Accomplishments over the past two years.
- Identification of remaining or continuing problems not being addressed by the program.

The report is organized into four sections: I. Introduction; II. Program Accomplishments; III. Research and Technical Assistance; and, IV. Conclusions.

Judy Powell, Community Development Specialist; Cari Prickett, Human Resources Analyst; and Robert Sokolowski, Community Development Specialist; are responsible for the analysis and writing of this report under the direction of Jack S. Russell, Director of Special Projects, Appalachian Regional Commission.

INTRODUCTION

In early 1981, the new Administration had included termination of the ARC area development program as part of its overall trimming of the federal budget. At the request of Congress, the thirteen Appalachian Governors made recommendations for completing the highway program and phasing out in an orderly fashion the area development program. The strong feeling was that, although much progress through 1980 was made in correcting the economic and social imbalances between Appalachia and the rest of the nation, much remained to be done. The December 1981 gubernatorial response, entitled "A Report To Congress From The Appalachian Governors Concerning The Appalachian Regional Commission" was a bipartisan compromise among the thirteen Governors in presenting an orderly cutback.

The proposal sharply narrowed the focus of the ARC highway and area development program, cutting the cost and fixing dates for completion. With regard to the area development program:

- A five-year jobs, training and private investment program was proposed to create or retain jobs, train Appalachian people for jobs available in the Region or stimulate private capital investments in support of economic investment.
- A distressed counties program was proposed that would provide the most distressed counties with safe drinking water and waste-disposal systems to improve their quality of life.
- A three-year health program was proposed that would bring basic health care to the 57 of the 397 counties not yet reached and focus on infant mortality in counties with rates at least 1½ times the national average.

The House Appropriations Committee, which heard testimony from the Appalachian Governors, said in its report on Fiscal Year 1983 appropriations, "Pending resolution of House-Senate authorization differences, the ARC should plan to implement the proposed finish-up plan under the more restrictive of either the House or Senate authorization guidance". The differences were not resolved and ARC has been extended year by year through September 1985 through the appropriation process.

To implement the finish-up program, the Governors adopted Resolution 538 which amended the Code. It detailed policies, made ineligible certain kinds of projects funded by ARC over the years, and established specific funding criteria.

It is now the third year of the finish-up effort. It is too soon to evaluate the actual impact these investments will make on the lives of people in the Region. However, much has been accomplished with limited funds. A summary of appropriated funds is below:

TABLE 1

APPROPRIATED FUNDS - FY 1983-1984

	1983	1984	Total
Highway	106.1	102.4	208.5
Access Roads	8.0	8.0	16.0
Highway Program Administration	1.0	1.0	2.0
TOTAL	115.1	111.4	226.5
Jobs and Private Investment	34.3	30.3	64.6
Distressed Counties	9.6	7.6	17.2
Health	5.1	4.1	9.2
LDDs	4.0	4.0	8.0
Technical Assistance and Research	1.0	1.0	2.0
Federal Agencies Administration	1.0	1.0	2.0
TOTAL	55.0[1]	48.0	103.0

[1] Includes $5 million released from $15 million previous appropriation held in reserve by OMB.

To summarize some of the more salient points, the largest segment of the finish-up program is the Jobs and Private Investment Program. It made $77.0 million (includes recoveries and transfers) of ARC assistance available to the states. In the first two years of the program, approximately $70.0 million was approved for 283 projects that helped create 22,737 jobs, retain an additional 20,000 and attract approximately $593 million of private investment. Areas of investment included housing, community and industrial development, enterprise development, education and employer-related child care.

The Distressed Counties Program became a successful program for the states. During the first two years of the program, the participating states spent $21.7 million in ARC assistance for 107 projects. Of the 107 projects, 92 projects (86 percent) directly related to improving the water/waste disposal conditions in the eligible areas -strengthening the major objective of the program.

Finally, under the Health Program, the goals that were established have largely been realized. During the first two years of the program, approximately $8.5 million in ARC assistance was approved for 91 projects. The implementation of these projects will provide basic primary care services to 230,000 persons and prenatal care to approximately 23,000 mothers. Further success of the program is highlighted by the fact that 268 National Health Service Corps physicians were successfully placed in the Region. The placing of physicians has lessened, to some degree, the need for federally assisted primary care services.

JOBS AND PRIVATE INVESTMENT PROGRAM

BACKGROUND

The Jobs and Private Investment (JPI) segment is the major area development component of the finish-up program. A total of $77.0 million was available for projects in FY 1983 and FY 1984. All 397 Appalachian counties plus five independent cities in Virginia are eligible for assistance under JPI. Projects receiving funding under this program were to have an immediate impact and effectively involve the private sector in area economic development. When initiated, there was skepticism that JPI would "work" as a framework for development or that states would be able to procure private sector investment.

POLICIES FOR THE JPI PROGRAM

With adoption of the Jobs and Private Investment Program, the Governors agreed to new policies that required that investments be related to one of three major purposes - creation and retention of private sector jobs, upgrade manpower for jobs in the Region, or stimulate private sector investment.

Resolution 538 defines eligible project activities within the JPI program as infrastructure projects, human resource projects, housing programs and enterprise development programs. Project criteria adopted for the JPI program requires that all projects demonstrate evidence of private sector involvement, and include evidence that intended program benefits will result within a reasonable period of time after project completion. (The private sector must provide commitment as to investments, equipment donated and job expansion.) Also, the Governors agreed that certain traditional classes of projects such as, recreation facilities, libraries, cultural centers, construction of schools, hospitals, or government office buildings, as well as construction of community centers or social service facilities, would no longer be eligible for area development funding. (See Appendix II.)

An expansion of the Commission education policy was adopted on August 1, 1983. Resolution 555 (Appendix III), an outgrowth of the Jackson Conference on Jobs and Skills for the Future, calls for the technical assistance and demonstration projects to develop innovative and coordinated approaches to develop state manpower resources. One million dollars was allocated for projects under this resolution. (It provided a set-aside and allowed projects to be funded up to 100 percent of cost, provided that no more than 50 percent of any project's costs can come from the special set-aside.)

In April 1984, another Commission conference was held in Hershey, Pennsylvania. This conference focused in part, on the importance of innovation and research in restoring competiveness and stimulating small business development. As a result, the Commission adopted Resolution 561 in July 1984. (See Appendix IV.) The purpose of this resolution was to take advantage of university research and development capabilities in the Region, and to assist states in packaging resources for technology development and assisting existing and emerging enterprises. As in Resolution 555, the matching funds can come from the states' JPI allocation, or JPI funds can be used exclusively for the demonstration project.

PROGRAM ACCOMPLISHMENTS - FY 1983

The first year of the JPI program was a success. There was $41.3 million available to the thirteen states for the JPI program. A total of $35.2 million was approved with $277 million in private sector investments committed to those projects or other related community development investments (refer to Table II and Table III for more details). In FY 1983 JPI investments helped to create 12,202 jobs and retain 16,634 jobs with the promise of an additional 10,571 jobs within three years from completion of the project. The following are the highlights of the 145 projects funded in FY 1983:

- 65 water/sewer projects were approved totalling over $12 million in JPI funds, attracting over $216 million in related private sector investments. 7,591 new jobs were reported and 12,352 will be retained as a result of these investments.
- 8 employer-related child care projects were supported by five states to meet individual employee needs of industry. These projects received $2,104,198 in ARC assistance.
- 612 jobs were created in 8 community improvements projects and $2,031,752 in JPI funds generated a private investment of $11,102,100 for related community development programs, including shopping malls, office complexes, industrial and commercial expansion and other community-based projects.
- 11 grants totalling $1,830,578 assisted in implementation of consolidated technical assistance, energy, and flood control projects.
- 17 enterprise development projects were approved totalling $3,766,858 for energy revolving loan programs; "incubator" facilities; state programs providing liaison with small businesses to assist them with federal procurement, business plans, tax policy, export development or other programs requested by local businesses.
- 16 vocational education projects were funded by twelve states to meet specific employment needs of industry and received $1,790,868 in JPI assistance. An estimated 8,349 students were enrolled in these programs.
- 8 basic skills projects were funded totalling $923,255 in JPI funds with an identified student enrollment of 12,132.

TABLE II

FY 1983 Jobs and Private Program Approvals

State	Water & Sewer	Waste-Treatment	Industrial Site Development	Community* Improvement	Enterprise Development	Technical* Assistance	Housing	Human Resources	TOTALS
ALA	$ 874,503	$ 777,500	$ 1,010,821	---	---	---	---	$ 99,776	$ 2,762,600
GA	1,356,805	400,000	1,653,808	62,500	---	209,478	34,355	377,031	4,093,977
KY	655,500	---	180,000	547,800	60,000	---	1,700,471	700,000	3,843,771
MD	---	---	480,0000	---	---	---	800,000	74,500	1,354,500
MS	470,000	215,095	---	---	400,000	15,000	---	451,690	1,551,785
NY	111,500	359,550	548,749	33,600	401,817	294,000	---	521,089	2,270,305
NC	785,125	411,151	---	---	16,000	228,600	---	1,433,461	2,874,337
OH	---	1,057,200	---	171,500	147,293	133,250	---	925,945	1,935,188
PA	76,840	171,632	856,000	---	2,710,248	658,945	532,774	105,792	5,112,231
SC	518,320	854,588	62,500	333,300	---	---	---	1,052,476	2,821,184
TN	546,000	730,000	160,000	---	33,500	107,600	---	---	1,597,100
VA	1,000,000	500,000	900,000	393,052	---	51,290	---	---	2,844,342
WV	702,748	62,000	674,059	10,000	---	132,415	---	600,000	2,181,222
TOTAL	$ 7,097,341	$ 5,343,621	$ 6,261,032	$ 2,031,752	$ 3,768,858	$ 1,830,578	$ 3,067,600	$ 5,841,760	$35,242,542

*Technical Assistance
Energy
Flood Recovery
Satellite

*Community Development
Access Road
Airport

Note: Human Resources Includes: Education, Employer Supported Child Care; and some Health not approved under the Health Finish-Up program.

TABLE III

FY 1983 - Jobs & Private Investment

Type of Project	Private Investment	Jobs Created	Jobs Retained	Jobs W/in 3 yrs.	Number of Projects
Water and Sewer	$216,840,617	7,591	12,352	4,564	65
Industrial Site Development	20,567,315	1,949	1,769	1,917	27
Community Improvement	11,102,100	612	1,395	284	8
Housing	17,704,081[1]	[2]	[2]	[2]	4
Technical Assistance	660,000	-0-	1,050	105	11
Enterprise Development	24,681,000[3]	1,525	[2]	2,951[4]	17
Other: o Access o Airports o Dental Service o Energy o Flood Related o Health o LDD Planning & Administration o Satellites	2,000,000	429	68	750	17
TOTAL	$293,555,113	12,202	16,634	10,571	145

[1] Represents private investment leveraged by ARC prior year commitments.

[2] Not Available.

[3] Represents private investment generated from the Pennsylvania Capital Loan Fund, reported by Pennsylvania.

[4] Represents jobs generated from the Pennsylvania Capital Loan Fund, reported by Pennsylvania.

PROGRAM ACCOMPLISHMENTS - FY 1984

The second year of the finish-up program had $36.1 million available to the thirteen states for the program. A total of $34.7 million was approved for 138 projects and a private sector investment of $300.8 million was identified as part of the local match in those projects (see Tables IV and V). In FY 1984, JPI investments lead to the creation of 10,535 new jobs and the retention of 4,079 jobs with an additional 7,680 jobs created in three years from the completion date of the project. The following are the highlights of the program:

- 30 water/sewage projects were funded with $6,211,510 in JPI funds and leveraging over $65.8 million in private sector investments.
- 54 education projects were funded; 17 from Resolution 555, or $890,827 and 38 projects from JPI funds using $3,537,682 from area development funds.
- 12 community improvements projects with $1,715,558 in JPI funds attracted $39,360,503 in private sector investment and lead to the creation or retention of 8,487 jobs within three years.
- 25 water and sewage projects generated 9,048 in new or retained jobs, utilizing $10,233,305 in JPI funds and attracting $136,339,000 in private sector investment.
- 25 projects were approved assisting the states with consolidated technical assistance, research, planning and energy conservation studies, involving $3.5 million in ARC assistance.
- 7 basic skills and other education proposals will assist students and adults in reading, writing, and computer literacy training that will help participants gain employment upon completion of the course or continue in higher education programs to further their job skills.
- 31 vocational education projects to meet customized job training for specific needs of industry received $3,403,798 in JPI grant assistance.
- 3 employer-related child care projects were approved with $1.3 in ARC assistance.
- One state has directed the use of their area allocation to promote and develop enterprise development direct technical assistance programs aimed at assisting small business gain knowledge in basic business services and operations. These services are provided by each Appalachian Local Development District who determines what the greatest business needs are in their respective region. Services include business planning, incubator facilities and other need programs.

TABLE IV

FY 1984 Jobs and Private Program Approvals

State	Water & Sewer	Waste-Treatment	Industrial Site Development	Community Improvement	Enterprise Development	Technical Assistance	Housing	Human Resources	TOTALS
AL	$ 340,550	$ 1,000,000	$ 883,346	$ 258,876	$ 100,000	$ 100,000	---	$ 200,000	$ 2,882,772*
GA	87,631	387,500	200,000	---	---	193,338	504,928	---	2,158,397
KY	500,000	475,000	500,000	372,712	---	356,600	---	---	2,204,312
MD	---	250,000	---	---	---	---	500,000	---	750,000
MS	665,367	262,663	705,000	---	---	175,000	---	258,705	2,066,736
NY	411,500	90,000	603,000	---	200,000	310,050	220,000	231,069	2,065,619
NC	206,200	---	---	---	---	389,129	---	1,542,323	2,137,652
OH	116,000	---	500,041	500,000	265,038	648,350	---	370,518	2,399,947
PA	42,412	---	354,953	---	3,672,185	465,000	59,000	225,000	4,818,550
SC	909,850	371,300	---	---	23,868	150,000	---	1,069,117	2,524,135
TN	782,000	868,332	865,068	51,000	40,000	741,895	---	200,000	3,548,295
VA	900,000	---	466,829	---	---	29,600	---	33,242	1,429,671
WVA	315,000	467,000	---	533,000	---	---	---	940,000	2,255,000
TOTAL	$ 6,061,510	$ 4,171,795	$ 5,078,237	$ 1,715,588	$ 4,301,091	$ 3,558,962	$ 1,283,928	$ 5,069,974	$31,241,086

*This figure does not include three Commission Demonstration Projects for Alabama:

1) Berry Water Project - $150,000
2) Aliceville Industrial Port - $2,500,000
3) Walker College Nursing Bldg. - $887,174

TABLE V

FY 1984 - Jobs & Private Investment

Type of Project	Private Investment	Jobs Created	Jobs Retained	Jobs W/in 3 yrs.	Number of Projects
Water and Sewer	$136,339,000	4,592	2,078	2,378	53
Industrial Site Development	24,375,000	1,724	391	1,558	19
Community Improvement	39,360,503	782	1,259	546	12
Housing	15,394,610 1/	2/	2/	2/	4
Technical Assistance	935,000	25	61	---	25
Enterprise Development	34,040,000 3/	3,380	2/	7,868	15
Other: o Energy o Health/Education o LDD Planning & Administration o Mine Subsidence o Rural Transportation o State Research	260,000	27	290	2/	10
TOTAL	$300,859,113	10,535	4,079	11,868	138

1/ Represents private investment leveraged by ARC prior year commitments.

2/ Not Available.

3/ Includes $31,918,000 reported by Pennsylvania from the Pennsylvania Capital Loan Fund.

4/ Includes $2,074 reported by Pennsylvania from the Pennsylvania Capital Loan Fund.

5/ Includes $4,188 reported by Pennsylvania from the Pennsylvania Capital Loan Fund.

ENTERPRISE DEVELOPMENT

In 1983, seven states submitted 17 enterprise development projects for approvals totalling $3,768,858. In 1984, 15 projects were funded in six states for $3,673,185. In both years, most of the approved funds were allocated to one state.

The belief that jobs must be identified may be influencing the state's decision as to the type of projects they feel are suitable for submission to the Commission. While several states expressed an interest in enterprise development projects (export trade, small business assistance, incubator facilities), there does not appear to be much activity to actually develop such projects. Even with the support being given by the Commission to enterprise development projects through the Hershey conference, passage of Resolution 561, plus the Mississippi wood conference, some states are still not prepared to develop projects dealing with these issues. A possible reason for this is that in some cases other departments within state government have responsibility for enterprise development and the Appalachian State Office may be reluctant to move into an area they do not have direct responsibility.

Some accomplishments under the Enterprise Development Program include:

- Implementation of the Southern Tier West Small Business Extension Service project in New York lead to the establishment of the Southern Tier Small Business Educational and Training Consortium, a cooperative effort of the Southern Tier Small Business Assistance Service, the U.S. Small Business Administration, S.U.N.Y., at Fredonia, Jamestown Community College, St. Bonaventure University, and Alfred University serving Allegany, Cattaraugus, and Chautauqua counties. Classroom training for business personnel is provided upon request through professional educators.

- Creation of the Regional Energy Development Corporation (REDEC) revolving loan program in 1980 serving the three counties in the Southern Tier Central region of New York has lead to approximately 650 jobs. The program has generated a private sector investment ratio of $9.00 to every $1.00 of ARC funds invested and will be self-sufficient after five years of operation.

- With enterprise development as the primary focus of Pennsylvania's Jobs and Private Investment Program, Pennsylvania has been able to accomplish the following:

    - Put in place a business expansion and start-up assistance capability in each LDD.

    - The state initiated the Pennsylvania Capital Loan Fund (PCLF) in 1981 with funds from the 302(b)(1) energy exemptive authority which now total $6.6 million. Pennsylvania repots 88 loans were approved committing $4,958,955 in ARC funds from the Capital Loan Fund program. The program has been expanded and now includes other state and federal funds bringing the total amount of funds in the PCLF to $20 million.

- Pennsylvania reports the Procurement Outreach program has resulted in 39 contracts totalling $10 million.
- Staff from each LDD have completed a one-year export training program as part of the ARC assisted enterprise development program.
- 7 incubator facilities, offering low-cost rentals, management and financial counseling and other business services, were supported, in part, with JPI funds.

o Georgia supported the start-up costs of a satellite Advanced Technology Development Center located in Barrow, Madison and Jackson counties. The ATDC program was administered by the Georgia Institute of Technology in Atlanta.

Following the approval of Resolution 561, four states submitted proposals utilizing new authority granted in the resolution. Three projects totaling $150,000 are still pending; the following two were approved:

o North Carolina developed a program to be coordinated by the Technology Development Authority to assist each LDD develop local strategies for small business assistance. Total cost of the program is $211,527, using $25,000 in special set-aside, $120,000 from their JPI allocation and $14,527 in-kind services.

o Pennsylvania matched $100,000 in set-aside funds and $20,000 from their JPI program to augment ongoing efforts by the Advanced Technology Centers to assist Pennsylvania firms compete for SBIR Phase I and Phase II contracts, including development of business plans, financial package structuring, technical writing, etc.

HOUSING

In Fiscal Years 1983 and 1984, eight states obligated $5.3 million to 73 projects with 2,936 single family and multifamily housing units. The $5.3 million investment leveraged $65.2 million in public funds (including FmHA, HUD 202, Public Housing funds) and $33.0 in private investments (including cash, equity, conventional loans, and bond financing) for a total of $106.5 million spent to develop housing and improvements related to specific housing investments in two years. The leverage ratio of other dollars to ARC dollars was 20 to 1, with the public leverage more than 13 to 1 and private leverage nearly 7 to 1. The average grant dollar spent per unit was $1,902.00 (see Table VI).

These figures do not include recapitalizations, housing technical assistance contracts or Pennsylvania's housing program. In total during the past two years, five states recapitalized their housing programs alloting $3,349,399 from state area development allocations as follows:

Georgia	$ 504,928
Kentucky	1,524,471
Maryland	1,000,000
New York	220,000
West Virginia	100,000
TOTAL	$ 3,349,399

Maryland and New York approved seven technical assistance contracts totalling $225,000 in order to provide local housing capability in housing programs to stimulate production. Three of the grants went to local development districts or their affiliates while three went to counties. The seventh provided partial funding for a regionwide technical service.

In Pennsylvania, the traditional 207 program as operated in other states, has undergone a shift that mirrors Pennsylvania's emphasis on their local development districts. Funds totalling $508,000 have been reprogrammed, though still administered by the Department of Community Affairs (DCA), to establish six revolving loan funds in six of the local development districts. The funds are operated in the same manner as the Pennsylvania Capital Loan Fund with DCA approving individual projects submitted after LDD loan comittee approvals. In addition, three local development districts, EDNCP, SEDA COG, and North Central have obligated $592,274 from their allocations to establish separate (302) housing revolving loan funds. Pennsylvania committed to housing $1.1 million thus far into the finish up program. Each of these funds expects to leverage ARC dollars to private dollars at least on a 1:1 ratio with the 207 funds requiring an overall leverage ratio of 9:1.

TABLE VI

HOUSING ACTIVITY UNDER THE FINISH-UP**
FY 83 AND FY 84

State	Number of Projects	Number Distressed County Projects	Number of Units	$/% ARC Investment	$/% Public Investment	$/% Private Investment	Grant per Unit
GA*	4	2	334	$ 896,711 (6.8)	$ 5,994,222 (45.7)	$ 6,213,500 (47.4)	$ 2,685
KY*	19	6	848	1,546,375 (4.9)	18,170,898 (57.8)	11,715,137 (37.3)	1,824
MD*	6	-	451	825,895 (6)	6,995,174 (50.6)	6,009,999 (43.4)	1,831
MS	1	-	60	75,000 (3.2)	1,820,000 (75.3)	522,746 (21.6)	1,250
NC	22	4	558	488,573 (3)	14,600,638 (91)	926,051 (6)	885
OH	4	1	161	484,974 (6)	7,6´6,978 (93.5)	44,652 (.5)	3,012
VA	6	1	258	479,020 (3.5)	7,823,130 (57.7)	5,259,000 (38.8)	1,857
WV*	11	4	266	499,440 (9.9)	2,138,629 (42.4)	2,407,606 (47.7)	1,878
TOTALS	73	18	2,936	$ 5,295,988 (5.4)	$ 65,209,669 (64.3)	$ 33,098,691 (30.3)	1,902 (average)

* Recapitalizations:

GA	$ 504,928
KY	1,424,471
MD	1,000,000
NY	220,000
WV	100,000
	$ 3,349,399

** Technical Assistance:

NY	$ 90,000
MD	135,000
	$ 225,000

PA. Housing Investment

$ 1,100,274

EDUCATION - MANPOWER TRAINING

Education to enhance economic growth has always been one of the Commission's objectives. Under the finish-up program educational investments have successfully been tied to upgrading manpower by making training more relevant to current job markets. The Governors' Report outlined a general thrust toward customized training, equipment relevant to job opportunities and establishment of basic skills centers. This was followed up by a major Commission conference on "Jobs and Skills For The Future" which set forth a broad framework to develop a long-term strategy for improving the quality of the Region's work force.

Education experts, businessmen, federal, state, and local officials all agreed that more private sector involvement was required, job market information needed constant updating, and quality improvement in basic skills to improve employability and retention were mandatory. Thus, the Commission adopted Resolution 555 the finish-up program, and allocated $1 million for special technical assistance and demonstration projects to develop and upgrade manpower in the Region.

The Commission assisted 26 education projects in eight states in FY 1983, and 54 projects in all thirteen states in FY 1984, totalling $8 million. The impetus for the increase in projects in 1984 was Resolution 555. Seventeen projects were funded under this resolution. Projects included teacher training, equipment for CAD/CAM training, computer literacy, basic skills centers and research and feasibility studies leading to state level education reform (see Tables VII and VIII).

EMPLOYER-RELATED CHILD CARE

In recent years there has been a growing trend for employers to become involved in the provision of child care for their employees. A study conducted by the Commission in 1982 to determine level of interest among Appalachian employers participating in the provision of child care for their employees indicated a low interest in the knowledge of child care and its benefits but a high level of interest for information regarding child care.

Resolution 538 provided for establishing or adapting an existing child care program to meet the needs of specific industries and their employees under the Jobs and Private Investment program. Where necessary, the construction of a facility was an eligible activity.

During the finish-up period, the Commission provided $3.3 million in funding assistance for 11 employer-related child care projects in 5 states that are serving 1,600 children of working families annually. One of those projects was a $2.4 million effort over two years to adapt an existing child care program serving 26 counties in Appalachian North Carolina to one that would meet the need of employers and in Mississippi, $204,888 in funding assistance was used for technical assistance activities.

TABLE VII

EDUCATION PROJECT APPROVALS 1983, UNDER THE JOBS AND PRIVATE INVESTMENT PROGRAM

	Vocational Training	Basic Skills	TOTAL
Alabama	$ 49,776		$ 49,776
Georgia			
Kentucky		$ 200,000	200,000
Maryland			
Mississippi	236,980	57,812	294,792
New York	374,000	34,544	408,544
North Carolina			
Ohio	62,250		62,250
Pennsylvania	81,029		81,029
South Carolina	983,500	67,976	1,051,476
Tennessee			
Virginia			
West Virginia		600,000	600,000
TOTAL	$ 1,787,535	$ 960,332	$2,747,867

TABLE VIII

1984 EDUCATION PROJECT APPROVALS

	JPI			
	Vocational Training	Basic Skills	Resolution No. 555	Total
AL			$ 50,000	$ 50,000*
GA			75,000	75,000
KY			99,315	99,315
MD			50,000	50,000
MS	$ 89,933	$ 63,884	56,296	210,113
NY	231,069		75,000	306,069
NC	508,862		75,000	583,862
OH	255,518	30,000	33,507	319,025
PA	190,000		69,898	259,898
SC	995,174		73,943	1,069,117
TN	200,000		57,868	257,868
VA	33,242		75,000	108,242
WVA	300,000	640,000	100,000	1,040,000
TOTAL	$ 2,803,798	$ 733,884	$ 890,827	$ 4,428,509

* Does not include $887,174 Walker College Project.

TABLE IX

EMPLOYER-RELATED CHILD CARE PROJECTS - FY 83-84

State	Number of Projects 1983	Number of Projects 1984	ARC Funds
Georgia	3		$ 376,531
Mississippi	2	1	261,786
New York	2		112,545
North Carolina	1	1	2,466,922
Ohio		1	85,000
TOTAL	8	3	$ 3,302,784

The Commission has proceeded to promote employer interest in child care through a series of seminars in eleven Appalachian states; only Kentucky and Maryland did not participate in this effort. The purpose of these seminars was to provide employers with knowledge of ways that employers can participate in child care with lower absenteeism and turnover rates being emphasized as one of the major benefits. The Commission has provided $221,000 in Commission Research funds for this effort.

The Commission recognizing that other federal agencies also have an interest in employer-supported child care has entered into a joint agreement with the Department of Health and Human Services and the Department of Labor to share information on the concept of employer-supported child care and to promote new and innovative programs among the private sector. In addition, the White House Private Sector Initiatives has also classified employer-supported child care as a priority and has conducted a series of seminars specifically for employers around the country. Two of these series have been conducted in Appalachian cities. The Commission assisted the White House Private Sector Initiatives in the conduct of these two seminars.

DISTRESSED COUNTIES

One of the issues which became a focal point in the finish-up initiative was the concern that many counties were unable to qualify for ARC assistance because they were rural, distressed and underdeveloped. The Governors determined that special assistance should be targeted toward the most distressed and underdeveloped of these counties and that the primary emphasis should be on improving "basic services" as a step toward improving the quality of life in these areas. What emerged was the "Distressed Counties Program". Its main objective was to fund projects that met the most severe needs for safe drinking water and affordable waste disposal. A special set-aside was identified to achieve this objective and counties were targeted for the receipt of these funds.

Policies

Much discussion and debate ensued over what indicators would be used to identify the eligible counties. In the final analysis, four indicators were selected. They are:

- Per Capita Market Income, which is total personal income as defined by the Bureau of Economic Analysis exclusive of welfare and other transfer payments that would otherwise obscure economic needs;
- Three-year unemployment average;
- Poverty, using the percent of county population under the poverty level as defined by national standards; and
- Three-year average infant mortality rate.

Counties falling into the lowest 25 percent in at least three out of four categories were identified. As a basis for beginning the program, the following data was used:

- Per Capita Market Income, 1979
- Unemployment, 1978-1980
- Poverty, 1976
- Infant Mortality, 1977-1979

Using this available data and the methodology, sixty (60) counties were identified. The states, upon review of the data, made special cases for seven additional counties, resulting in 67 counties eligible in the first year (FY 1983) of the Distressed Counties Program. (See Appendix V.)

The allocation for the first year was $9.6 million which was apportioned among ten participating states on the basis of:

- total land area,
- total population,
- total number of houses without plumbing, and
- number of eligible counties.

Resolution No. 538 defined the specific policies for the implementation of the distressed counties program. The Governors approved the Resolution on July 28, 1982, with an effective date of October 1, 1982. The policies reinforced the intent of the Governors' Report to use the distressed counties funds primarily in support of projects that improve the water and waste disposal problems. This clearly was meant to be the major focus. In addition, states were able to fund "other basic services" (i.e., housing) if they exercised their prerogative in so defining "other basic services" in their Plan. The states were also permitted to use the distressed counties funds in support of a "jobs and private investment" project in an eligible county. All of this was intended to give the states flexibility in committing their funds, which could not be spent in non-targeted counties. The general funding policies applied as with all area development projects; namely:

- certain activities, such as construction of schools, hospitals, government buildings, community centers, etc. were ineligible; and

- the maximum ARC limit (applicable statutory requirements notwithstanding) was established at 50 percent of the total cost.

Early in the first year, when Investment Programs were submitted, it was argued that the intent of the Distressed Counties Program - namely, assist the most distressed and underdeveloped counties - might be subverted by the inability of applicants to secure 50 percent matching funds. The Census and Bureau of Economic Analysis data supports the fact that 26.4% of the population in the ARC-designated distressed counties is living below the poverty level compared to 14.0 percent for the entire Appalachian Region and 12.4 percent for the U.S. average. In addition, the per capita total personal income for distressed counties is $6,205 (55.9 percent of the U.S. level) compared with $8,967 (80.8 percent of the U.S. level) for the entire Region and $11,100 for the U.S. For these reasons, in March of 1983 the Governors and the Federal Co-Chairman approved Resolution No. 548 (see Appendix VI) which permitted greater participation with ARDA funds in the Distressed Counties Program. In determining that the 50-percent limit might be too restrictive for projects in distressed counties where the needs are great and local resources scarce, the policy was amended to allow ARDA funds up to the maximum limits on federal assistance provided in the Appalachian Regional Development Act, as amended. Any project funded in an ARC-designated distressed county could receive ARC assistance up to the maximum federal level established by the funding authority (Section 214, 202, 211, etc.) in the ARDA, as amended; provided that further State limitations were not imposed.

PROGRAM ACCOMPLISHMENTS FY 1983

The first year of the Distressed Counties Program was a success. There was $9.6 million allocated to the program. A total of $11.7 million was approved for 55 projects (refer to Table X for more detail). Overall, six states had to borrow from another state or transfer funds from their respective jobs and private investment allocations to fund eligible projects. Four States (Mississippi, North Carolina, Pennsylvania and Virginia) had a balance in their distressed counties allocation which was loaned out or carried forward. An analysis of the 55 projects reveals:

- 36 projects directly related to improving the quality of water by either constructing new systems or renovating and/or extending existing systems. Approximately 74,000 persons will receive good drinking water.
- 9 projects related to constructing new or extending and/or renovating existing sewerage systems. Approximately 11,000 persons will be served with adequate liquid waste disposal systems.
- 2 projects allowed their communities to improve upon both water and sewer systems, which will affect 1,500 persons.
- 4 projects provided residents with affordable solid waste disposal systems. These systems will be county-wide and will affect approximately 77,000 persons.
- Under the "other basic service" category, three projects were approved. Two projects related to housing rehabilitation affecting 60 families and one project purchased fire-fighting equipment for a rural fire protection program impacting on 10,000 county residents.
- 1 project was directly related to the Jobs and Investment Program.

It is clear that the investments supported the intent of the program. Of the 55 projects, 51 projects (93 percent) were for improving water and waste disposal problems.

Of the 67 eligible counties, 39 counties received Distressed Counties Program funds in the first year. The 28 counties that did not receive funds in FY 1983 are:

- Alabama - Randolph
- Kentucky - Lewis, Lawrence, Bath, Menifee, Morgan, McCreary, Lee, Owsley, Wolfe
- Mississippi - Marshall, Noxubee, Winston, Benton
- North Carolina - Swain
- Pennsylvania - Sullivan
- Tennessee - Clay, Jackson, Campbell, Cocke, Scott, Hancock
- West Virginia - Summers, Clay, Webster, Calhoun, Gilmer, Pendleton

However, looking at the overall effort under the finish-up program in the first year, a total of $17,903,977 of ARC assistance was approved for projects in ARC-designated distressed counties. This figure includes any project funded under the Jobs and Private Investment, Distressed Counties and Health Programs; also any access roads funded under Section 201B authority. In all, 93 projects impacting on 52 of the 67 targeted counties were approved. The 15 counties that did not receive any assistance in FY 1983 are:

- Alabama - Randolph
- Kentucky - Lawrence, Bath, Menifee, Morgan, Lee, Wolfe
- Mississippi - Benton and Marshall
- Tennessee -. Clay, Jackson, Campbell, Cocke
- West Virginia - Summers, Gilmer

Refer to Table X for a summary of expenditures by program area. It is significant to mention that in the first year of the finish-up program, only 14 projects (15 percent) needed ARC assistance at a level greater than 50 percent. Clearly, the states were requiring applicants to secure as much other funding as possible.

PROGRAM ACCOMPLISHMENTS - FY 1984

Shortly into the second year of the program, a reassessment of eligible counties was made using more current data. This was done in part because at the time that the Governors made their report to Congress (December of 1981) 1980 Census information was not available. Early in FY 1984 a reassessment was done on the basis of the following data:

- Per Capita Market Income, 1981
- Unemployment, 1980-1982
- Poverty, 1980
- Infant Mortality, 1979-1981

In July 7, 1984, the Governors approved Resolution No. 562 which made changes in distressed counties designations. The following 13 new counties became eligible for assistance immediatley (FY 1984):

- Alabama - Blount
- Kentucky - Fleming, Letcher, Wayne, Whitley
- North Carolina - Ashe, Clay
- Tennessee - Bledsoe, Monroe, Sequatchie, Van Buren, White
- West Virginia - Doddridge

In addition, the resolution directed the removal, effective October 1, 1984, (FY 1985) of the following six counties (see Appendix V for comparison list):

- Alabama - Clay
- Georgia - Dawson
- Mississippi - Webster
- North Carolina - Jackson
- Pennsylvania - Sullivan
- West Virginia - Gilmer

As a result of this resolution, 80 counties were eligible for distressed counties assistance in FY 1984. The funds made available in the second year totalled $7,970,718 apportioned among ten states by formula. At the conclusion of the second year of the program, a total of $10,036,958 was approved for 52 projects, continuing the success begun in the first year (see Table XI). Overall, eight states fully committed or exceeded their distressed counties allocation. The six states that exceeded their allocation either borrowed from another state or transferred funds from their JPI allocations. Two states (Kentucky and Virginia) had a balance at the end of FY 1984 that was either loaned out or carried forward. An analysis of the 52 projects reveals:

- 33 projects concerned themselves directly with improving the quality of water by either constructing new systems or renovating and/or extending existing systems. Approximately 22,000 persons (7,800 customers) will receive safe drinking water.

- 5 projects were directly related to constructing new or extending and/or renovating existing sewerage systems. As a result, approximately 2,500 persons (900 customers) will be served by affordable liquid waste disposal systems.

- 2 projects were directly related to providing the residents with affordable solid waste disposal systems. With projects of this nature, the population of entire counties is eligible for the service. Consequently, approximately 27,000 persons will be affected.

- In the "other basic service" category, one project was funded which impacted on the safety of the 690 persons living in Cherry Township, Pennsylvania.

- 1 project allowed the community to improve both the water and the sewer systems and will benefit 200 customers (approximately 550 persons).

- 10 projects were funded under the criteria of the jobs and private investment program in a distressed county.

Again, for the second year, it is clear that the investments supported the overall focus and intent of the program. Of the 52 projects, 41 projects (79 percent) were for improving the water and waste disposal problems.

Of the 80 eligible counties, 44 counties did not receive any distressed counties assistance in FY 1984. They are:

- Alabama - Blount, Lawrence, Bibb
- Georgia - Dawson, Union
- Kentucky - Lawrence, Lincoln, Menifee, Morgan, Magoffin, Clinton, McCreary, Russell, Clay, Knott, Lee, Owsley, Wolfe, Letcher, Whitley
- North Carolina - Jackson, Clay, Ashe
- Tennessee - Clay, Cumberland, Fentress, Overton, Clairborne, Cocke, Hancock, Grundy, Meigs, Bledsoe, Sequatchie, Van Buren, White
- West Virginia - McDowell, Summers, Lincoln, Clay, Calhoun, Taylor, Gilmer, Doddridge.

Of these counties, the following 13 did not receive distressed counties funds in FY 1983: (Blount, Letcher, Whitley, Ashe, Clay, Bledsoe, Sequatchie, Van Buren, White, and Doddridge counties were not eligible in FY 1983).

- Kentucky - Lawrence, Menifee, Morgan, McCreary, Lee, Owsley, Wolfe
- Tennessee - Clay, Cocke, Hancock
- West Virginia - Summers, Calhoun, Gilmer.

Looking at the overall effort under the finish-up program in FY 1984, a total of $15,133,422 of ARC assistance was approved for projects in the ARC-designated distressed counties. This figure represents any project funded under the Jobs and Private Investment, Health and Distressed Counties Programs; also any access roads supported under Section 201B authority. In all, 101 projects impacting directly or indirectly on 73 of the 80 eligible counties were approved. The seven counties that did not receive any benefit (directly or indirectly) are:

- Alabama - Blount, Bibb
- West Virginia - McDowell, Lincoln, Calhoun, Gilmer, Doddridge

It is significant to note that in this second year, only 15 projects (17 percent) requested ARC assistance beyond the 50-percent level. Refer to Table II for a summary of expenditures by program area.

Examples of the type projects funded are as follows:

- A $52,000 ARC grant will help extend five miles of waterline from the Town of Blue Mountain (Tippah County, Mississippi) to serve 60 homes, a children's home for abandoned adolescents, and a facility caring for 27 elderly clients in the Flatwood area.

- A $392,940 ARC grant will help extend waterlines to three areas in the southern and eastern portions of Campbell County, Tennessee. A total of 152 residences will benefit from good water. Currently, these areas are served by wells that are contaminated.

- A $700,000 ARC grant will help build a county-wide water system in Magoffin County, Kentucky. The Governor has declared a state of emergency in the county due to the number of contaminated wells. The project will benefit 1,400 residents and an elementary school.

- A $42,000 ARC grant will help the town of Hillsboro, in Pocahontas County, West Virginia, build a sanitary sewer system. Many of the town wells are polluted by the septic tanks currently in use, making the town liable for a federal fine if pollution is not cleaned up. The project will benefit 600 residents.

- A $224,000 ARC grant will help construct a legal landfill in Jackson County, Kentucky, to replace illegal open dumps and discourage the burning of trash, which creates health hazards and pollution. When cleaned up, the improved environment will help the county compete for tourist trade and the project will benefit 4,000 families.

- An ARC grant of $35,000 to the North Carolina Housing Finance Agency will be used as a supplement to community development block grant (CDBG) funds to fund the rehabilitation of 22 substandard family homes in the three sections of the town of Sylva in Jackson County, North Carolina, and to make water system improvements in the area. The ARC funds will be used for water and sewer connections to the homes and for access, parking and street improvements. After comprehensive surveys, the town selected these three areas as having the most severe housing and public facility needs. The great majority of residents are minority low-or moderate-income people. In two of the areas, access to the homes was difficult and often unsafe, and parking was inadequate; in the third, in addition to poor access, many of the households had no water supply, all of them had water needs and many had only makeshift hookups to the town sewer system.

TABLE X

ARC Investments In ARC-Designated Distressed Counties

FY 1983

STATE	JOBS & PRIVATE INVESTMENT		DISTRESSED COUNTIES		HEALTH		HOUSING*		ACCESS ROADS		TUG FORK		TOTALS	
	No.	ARC $	No.	ARC $	No.	ARC $	No.	ARC $	No.	ARC $	No.	ARC $	No.	ARC $
ALABAMA	2	$ 289,994	5	$ 1,045,000	2	$ 45,900							9	$ 1,380,894
GEORGIA	2	467,371	4	1,150,432	1	26,250	1	$321,000					8	1,965,053
KENTUCKY	1	27,000	11	3,168,600	3	414,575	1	36,000	1	$23,544	1	$ 29,167	18	3,698,886
MISSISSIPPI	1	40,100	7	929,000	2	179,960							10	1,149,060
N. CAROLINA			2	364,000									2	364,000
OHIO			6	430,627	1	256,000	1	88,000					8	774,627
PENNSYLVANIA					1	32,182							1	32,182
TENNESSEE	2	660,000	7	2,105,800	1	98,226							10	2,864,026
VIRGINIA	1	400,000	2	81,562			1	68,000					4	549,562
W. VIRGINIA	2	829,059	11	2,436,002	5	729,748	1	31,790			4	1,099,088	23	5,125,687
TOTALS	11	$2,713,524	55	$11,711,023	16	$1,782,841	5	$544,790	1	$23,544	5	$1,128,255	93	$17,903,977

*Old money.

TABLE XI

ARC Investments In ARC-Designated Distressed Counties

FY 1984

STATE		JOBS & PRIVATE INVESTMENT		DISTRESSED COUNTIES		HEALTH		HOUSING**		ACCESS ROADS		TOTAL
ALABAMA	(2)	$2,537,500	(7)	$ 1,252,080	(3)	$ 60,108			(2)	$254,400	(14)	$ 4,104,088
GEORGIA	(1)	6,400	(1)	200,000	(1)	21,807	(1)	$124,596			(4)	352,803
KENTUCKY	(1)	44,590	(7)	1,555,700	(5)	427,043	(4)	196,438			(17)	2,223,771
MISSISSIPPI	(3)	78,127	(12)	1,235,600	(1)	129,029					(16)	1,442,756
NORTH CAROLINA	(2)	52,662	(3)	1,017,560	(1)	67,430	(4)	78,500			(10)	1,220,152
OHIO			(3)	481,000							(3)	481,000
PENNSYLVANIA	(2)	43,312*	(3)	172,000	(1)	46,600					(5)	261,912
TENNESSEE	(5)	531,727* *	(7)	1,459,960							(12)	1,991,687
VIRGINIA			(1)	120,038							(1)	120,038
WEST VIRGINIA	(2)	69,000	(8)	2,543,020	(6)	293,195	(2)	10,000			(18)	2,915,215
TOTAL:	(18)	$3,367,318	(52)	$10,036,958	(18)	$1,045,212	(11)	$409,534	(2)	$254,400	(101)	$15,113,422

* - $ split between J.P.I. & D.C.

Pa. = LaPorte ($42,412 assigned to J.P.I. & $96,000 to D.C.)
Tn. = Tellico ($75,460 assigned to D. C. & $237,040 to J.P.I.)

** - This represents ARC assistance approved prior to FY 1984 in the Housing Program but obligated against specific projects in FY 1984.

TABLE XII

Combined Total ARC Investments In ARC-Designated Distressed Counties

For FY 1983 and FY 1984

STATE		JOBS & PRIVATE INVESTMENT		DISTRESSED COUNTIES		HEALTH		HOUSING		ACCESS ROADS		TOTAL
ALABAMA	(4)	$2,827,494	(12)	$ 2,297,080	(5)	$ 106,008		-0-	(2)	$254,400	(23)	$ 5,484,982
GEORGIA	(3)	473,771	(5)	1,350,432	(2)	48,057	(2)	$445,596		-0-	(12)	2,317,856
KENTUCKY	(2)	71,590	(18)	4,724,300	(8)	841,618	(5)	232,438	(1)	23,544	(34)	5,893,490
MISSISSIPPI	(4)	118,227	(19)	2,164,600	(3)	308,989		-0-		-0-	(26)	2,591,816
NORTH CAROLINA	(2)	56,662	(5)	1,381,560	(1)	67,430	(4)	78,500		-0-	(12)	1,584,152
OHIO		-0-	(0)	911,627	(1)	256,000	(1)	88,000		-0-	(11)	1,255,627
PENNSYLVANIA	(2)	43,312	(3)	172,000	(2)	78,782		-0-		-0-	(7)	294,094
TENNESSEE	(7)	1,191,727	(14)	3,565,760	(1)	98,226		-0-		-0-	(22)	4,855,713
VIRGINIA	(1)	400,000	(3)	201,600		-0-	(1)	68,000		-0-	(5)	669,600
WEST VIRGINIA	(4)	898,059	(19)	4,979,022	(11)	1,022,943	(3)	41,790		-0-	(37)	6,941,814
TOTAL	(29)	$6,080,842	(107)	$21,747,981	(34)	$2,828,053	(16)	$954,324	(3)	$277,944	(189)	$31,889,144

HEALTH FINISH-UP

BACKGROUND

By law, the ARC was given the responsibility for improving health care in Appalachia, which had ranked poorly by all national measures. In the late 1960's, the Commission emphasized the construction of critical health facilities. By the early 1970's, the Commission changed its health focus from construction to services by initiating a strategy to get in place basic health services within 30 minutes of all people in Appalachia. In the late 1970's, after an ARC conference on children and the family, the Commission added an additional health objective: to reduce infant mortality, primarily through improved primary health care.

Since the initiation of ARC in 1965, there has been notable progress in reducing infant mortality and extending primary care to a greater number of Appalachians. Infant mortality was better than halved by the late 1970's and primary health care services had impacted on over 300 of the Region's 397 counties.

As of 1980, there were still some areas in Appalachia that had not shared in the improvement of health care. Some counties still had infant mortality rates 50 percent-higher than the national average. Part or all of certain counties were still classified as Health Manpower Shortage Areas by national standards.

For a three-year period during the finish-up program, the Governors' Report projected a health program that would:

- Make available primary care to approximately 50 counties not previously served, which would fulfill the Commission's objective of putting basic health care within reasonable reach of every Appalachian;
- Reduce infant mortality in counties where the rate exceeded the national average by one and one-half times;
- Make available an estimated 150 additional health professionals in Health Manpower Shortage areas in the Region; and
- Provide access to basic health care for more than 600,000 additional people.

The Commission adopted policies that reflected this report; limited eligible areas of activities to primary care, infant mortality and physician recruitment; and limited types of projects to technical assistance, construction (for primary care facilities only), renovation, organizational costs, start-up and first-year operations in targeted counties. To implement this program, an allocation was made that was not transferrable to other Commission programs.

The initial analysis for the Region's counties indicated that 82 counties would be eligible for the health finish-up program because they had a severe need for a primary care program (beyond 30 minutes in normal conditions of primary care services) or because they had unusually high infant mortality rates (1½ times the national average or worse). Of these 82 counties, 7 qualified to participate in both the Infant Mortality Program and the Primary Care Program.

The Governors' Report acknowledged that data available at the federal level might not reflect actual conditions in some Appalachian counties. Consequently, each state was encouraged to continue to assess the need in each designated county and to identify other areas with significant needs not yet designated. For the FY 1983 program, the Commission consider changes in counties eligible for assistance only where data used in the initial designation procedure were technically inaccurate. Three counties were found: two for primary care and one for infant mortality. Thus, the number of counties eligible for health finish-up activities for the first year was: 60 for primary care and 33 for infant mortality, 7 of which would be eligible for both (refer to Appendix VII for complete list).

Health Committee

One unusual feature of the Health Finish-Up Program was the Health Committee which was specified under Resolution 538. The Committee was composed of the Federal Co-Chairman and three states appointed by the States' Co-Chairman. The primary purpose of the Committee was to develop and recommend criteria for reviewing health finish-up projects that would assist the states in developing effective projects and provide a framework for ARC staff and the Committee in reviewing preapplications and proposals.

Program Accomplishments, 1983

The Commission adopted a Regional Health Plan (Resolution 549) on March 1, 1983 to implement the first year of the Health Finish-Up Program. General principles, project criteria and procedures, designations of target and counties and a Health Investment Program totalling $4.77 million were included in the plan. The plan was amended in July to reflect deletion of seven projects originally included in the Investment Program and the addition of seventeen new or substitute projects. These changes revised the total estimated cost of the Health Finish-Up Program for the first year to $5,732,552 ($632,000 above the allocation of $5.1 million for FY 1983). The Health Committee recommended that approvable projects in the Health Plan be reviewed as they were submitted and that any project remaining beyond the FY 1983 allocation be funded by FY 1984.

The Commission approved 45 projects totalling $4.5 million for the following activities (see Table XIII for more detail):

- primary care for an estimated 103,000 people in 27 of the 60 designated target counties (45 percent);
- prenatal or related care to some 6,600 maternity cases in 23 of the 33 designated high infant mortality counties (69 percent);

- construction of six primary care sites and major renovation of five others; and
- recruitment and placement of 70 National Health Service Corps and 12 non-Corps physicians to shortage areas of the Region, with early commitments for 60 more providers in the spring of 1984.

Program Accomplishments - FY 1984

Several states requested approval for adding counties eligible for primary care activities under the current designation criteria: documentation that a county included as a Health Manpower Shortage Area not within reasonable commuting distance to primary care services; or documentation that original data concerning ARC or PHS assisted services in a shortage area were not accurate. The Health Committee added five counties to the list of 60. They were: Delaware and Schoharie (New York), Lincoln (Kentucky), Northumberland (Pennsylvania) and Richie (West Virginia). No counties that were originally designated were removed from eligibility.

Since the original designation of counties eligible for infant mortality reduction assistance was made on the basis of three-year infant mortality rates (for the period 1977-79) that were 1½ times the national average or worse, infant mortality rates for the three-year period of 1979-81 were reviewed. The rate 20.0 infant deaths per one thousand live births was adjusted to 18.7 infant deaths per one thousand births consistent with the national average. Those counties that met the revised rates were added and those counties previously designated that did not meet the revised criterion were removed from eligibility as of October 1, 1984. By continually reviewing updated infant mortality rates, the Commission was able to focus program efforts on areas of significant need in the Region (see Appendix VII for comparison).

In FY 1984, the Commission approved 46 projects totalling $3,973,969 for the following activities (refer to Table XIV for more detail):

- primary care for 127,047 people in 23 of the 65 designated counties;
- prenatal or related care to some 16,613 maternity cases in 19 counties; and
- construction of five primary care sites and major renovation to two others.

The combined two-year effort has resulted in the funding of primary care projects in 55 percent of the eligible primary care counties; prenatal care in 79 percent of the original infant mortality counties and the construction of 11 and the renovation of 17 primary care sites. In addition to this, success was achieved in placing 268 National Health Service Corps Physicians which reduced the need for federally assisted primary care services, in several counties.

TABLE XIII

FY-83 HEALTH FINISH-UP APPROVALS
ARC Funds Only

	No. of Projects	Infant Mortality	Primary Care	Primary Care Infant Mortality	Physician Recruitment	TOTAL
Alabama	7	$ 83,896	$ 585,798		$ 28,000	$ 697,694
Georgia	6	82,926	484,894		27,000	594,820
Kentucky	5	326,759	149,952		11,144	487,855
Mississippi	2	156,643		$516,257		672,900
New York	3		310,128			310,128
Ohio	2		428,285			428,285
Pennsylvania	8		173,373		27,559	200,932
Tennessee	3	98,226			30,000	128,226
West Virginia	9	26,300	687,343	256,062	15,000	984,705
	45	$774,750	$2,819,773	$772,319	$138,703	$4,505,545

TABLE XIV

FY-84 HEALTH FINISH-UP APPROVALS
ARC Funds Only

	No. of Projects	Infant Mortality	Primary Care	Primary Care Infant Mortality	Physician Recruitment	TOTAL
Alabama	11	$161,524	$ 680,935		$ 92,659	$ 935,118
Georgia	5	43,614	292,775		54,000	390,389
Kentucky	7	353,159	136,020		29,425	518,604
Maryland	-0-					-0-
Mississippi	1			$756,307		756,307
New York	2		10,000		15,201	25,201
North Carolina	1	67,430				67,430
Ohio	-0-					-0-
Pennsylvania	9		753,650		47,858	801,508
South Carolina	0					-0-
Tennessee	1				30,000	30,000
Virginia	1		67,250			67,250
West Virginia	8	289,997	39,549		52,616	382,162
	46	$915,724	$1,980,179	$756,307	$321,759	$3,973,969

COMMISSION RESEARCH AND TECHNICAL ASSISTANCE

The Commission research and technical assistance initiatives play a direct role in providing a comprehensive analysis of regional conditions and in developing economic strategies and options for Appalachia. In 1983 and 1984 the Research Committee recommended that Commission research funds be used to support technical assistance and related activities necessary to carry out the Commission's finish-up program.

TECHNICAL ASSISTANCE AND RESEARCH ALLOCATIONS FY 1983-84

	1983*	1984
Jobs & Private Investment	$ 450,000	$ 400,000
Distressed Counties	150,000	100,000
Health	100,000	125,000
Co-Chairmen's Committee Fund	200,000	75,000
Commission Conferences		150,000
Appalachian Foundation	300,000	150,000
TOTAL	$ 1,200,000	$1,000,000

* In addition to the $1,000,000 from funds appropriated for FY 1983 there was available approximately $500,000 of Section 302 fund recoveries from previous year allocations, for an overall total of $1,500,000. Of that total amount $300,000 was allocated for Foundation activities, leaving a balance of $1,200,000.

REGIONAL ANALYSIS

With the Appalachian Region unusually hard hit by unemployment in late 1982 and early 1983, the Commission prepared a comprehensive analysis of economic information to supplement existing technical assistance to states and local development districts. The following reports were produced:

- o A broad profile of the Region's economy in the prior decade in the context of influences of national economic shifts, policies, and business cycles. Detailed case studies of industries critical to the Region were developed.

- An overall assessment of expected economic conditions in the next decade produced by structural changes in the U.S. and foreign economics that affect Appalachia's economy. The report of the assessment was presented and discussed at the Commission meeting in October 1983. Reports on specific subjects and industries were completed in January 1984: high technology, chemical and plastic related, metals, wood and wood-using, textile and apparel, coal, and foreign trade.
- Special regional studies of the Western Maryland and West Virginia economies were completed at states' request. The studies were undertaken to support state and LDD efforts to create and retain jobs.

The data, as well as updates, is available by state, LDD, and county levels of aggregation.

TECHNICAL ASSISTANCE/WORKSHOPS

The Commission continued its effort to increase the expertise of local development districts, state and ARC staffs through a series of workshops.

Health

In the physician recruitment area, the Commission-sponsored workshops were attended by representatives from medical schools, state and federal health administrators, private physicians, hospital and clinic administrators and local community leaders. Areas covered and discussions focused on: evaluating community practice potential for supporting a physician; strategies for promoting your community; and, designing incentive packages to meet physician needs in underserved areas.

Economic Development Financing

The Commission provided a series of workshops on economic development financing. Three one-week sessions were conducted by the National Development Council in late 1983 and early 1984 to train participants in the process of putting together financing packages for industries. Each session was designed to outline the essential components of a locally controlled and directed economic development system, including instruction on how to establish public/private partnerships, initiate marketing programs, utilize tax incentive and loan programs and screen, analyze and package investment proposals. More than 160 participants representing all 13 Appalachian states received training through these workshops.

Housing and Community Development

Workshops were held on housing program initiatives and on community development programs available to the Region. The workshops provided information and technical assistance for state housing implementing agency personnel, ARC program managers, LDD staff and other state personnel interested in housing and community development programs. The first workshop held in August, 1983, covered the UDAG program and equity syndication, in introductory sessions and in indepth sessions. The second workshop, held in June, 1984, covered the Rental Rehabilitation Program, Housing Development Grant Program (HoDAG) and Housing Voucher Demonstrations administered by HUD; and the Rural Housing Preservation Grants administered by FmHA. The workshops provided information, regulations and procedures that are available to the states.

Social Investment

To stimulate new private investments in Appalachia, workshops for local development districts were designed to familiarize them with social investment funds available from insurance companies and private foundations. The Ford Foundation, Prudential Life Insurance Company, AETNA Life and Casualty Company and Equitable Life Assurance Society briefed the districts on their investment interest and criteria for funding. In return, districts presented the social investors with local investment opportunities, and ongoing development initiatives.

Adult Literacy

A workshop on Adult Literacy reinforced findings of the Jackson and Hershey Conferences that literacy is still a problem to the Appalachian states as they train, retrain and upgrade manpower for regional jobs. The workshop focused on learning about successful adult literacy efforts, identifying potential resources for implementing and expanding adult programs and discussing possible future actions for improving adult literacy levels in the Region.

Child Care

A new program initiative for the Commission was the emphasis on participation by private industries in child care for their employees. The Commission provided technical assistance/training to assist industries and community groups in planning and implementing child care programs that benefit the private sector. Approximately 700 persons representing the private sector attended a series of workshops/seminars in 11 states that focused on this issue. In addition, information packets regarding the benefits of employer participation in child care was made available via mail to another 3,000 employers in the Region. These packets contained tax implications, methods for employer involvement including names of specific companies who are exercising the various options.

RESEARCH/DEMONSTRATIONS

Coal

As part of the economic development strategy of the finish-up program, priority was given to increasing production and marketing of coal. The ARC strategy has been to assist in developing innovative marketing arrangements for small and medium-sized coal producers. The reason for this is that in the recent down-turn in sales, such producers have been the hardest hit segment of the coal industry, which is characterized by much heavier concentration of small-scale operations than is the industry in the rest of the country.

The Commission has continued to build upon its FY 1982 coal initiative. Assistance was provided for conferences and seminars, and distribution of over 1,500 copies of reports analyzing the export opportunities, structure of the coal export market and port capacity. Some specific projects include:

- A $70,000 project (with $50,000 in ARC funds) was initiated in Alabama to develop a cooperative marketing organization to market abroad coal produced by the small producers who were having extreme difficulty in finding buyers for their output. Top of Alabama Council of Governments (TARCOG), a local development district in Northern Alabama which had attained success earlier in a more general export marketing program, was the grantee. After a year's effort, which included working with the state's small producers and analyzing and testing the market for Alabama coal, TARCOG is now ready to establish a producers' cooperative and a marketing authority.

- Another project was initiated in Tennessee, where the Tennessee Energy Division of the State Department of Economic and Community Development applied for ARC assistance to determine the feasibility, develop a suitable blueprint and then actually implement the blueprint to establish a cooperative marketing venture for the coal produced by the small producers.

- A Kentucky project funded earlier by ARC, under which the Kentucky Export Resources Authority and Big Sandy Coal Producers Association were formed to serve as a mechanism to export coal produced by small operators, has served as a model for both the current initiatives. The Kentucky project has led to the export of almost 1 million tons of coal over the last couple of years.

Export Promotion

To take advantage of the Export Trading Company Act of 1982, the ARC undertook a survey to determine how the new law could best be used in Appalachia. Further, an analysis of the export potential of the area affected by the completion of the Tennessee-Tombigbee waterway was prepared for ARC. It suggested a number of steps that should be taken to strengthen and expand exports from the area. These included using the Commission as a catalyst to foster the development of export trading companies that could use the waterway for shipment of bulk commodities produced in the Region.

Also, as a part of the Commission's export effort, a major study to examine trading opportunities in forest products was undertaken. The study was designed to assist small and medium-sized sawmill and wood product firms expand business by capturing a share of the foreign market. It contained an assessment of wood-product resources and methods of harvesting in a study area covering the parts of Mississippi, Alabama, and Tennessee that are served by the Tennessee-Tombigbee waterway. Characteristics of foreign countries importing wood products are also discussed, as well as new mechanisms to assist foreign trade.

To insure the study results are utilized, the Commission conducted a two-day working-conference to explore the funding and discuss establishing export trading companies and export cooperatives. The 300 conference participants included export trading companies, banks, financial and trading agents, brokers, freight operators, shippers, wood producers and public sector officials involved in trade promotion.

Education

Realizing the shortage, regionally as well as nationally, of secondary teachers in the areas of chemistry, physics, earth science, and mathematics, Commission research assistance was also used by three states to review options such as: differential pay, retraining of surplus teachers, school/industry cooperation including lend-lease arrangements, and use of part-time teachers. In addition, Commission technical assistance was used to establish basic skills centers in vocational education facilities which focus on activities to improve employability.

Wastewater Management

Throughout the Region one of the most troubling problems with water and wastewater has been systems inefficiency and inadequate management. Together with EPA and the National Demonstration Water Project, the Commission has provided training and technical assistance to approximately 100 local governments and 106 plants in six states. A capability is now in place to: manage fiscal and technical resources; diagnose operational problems; correct technical problems; and, evaluate effectiveness of ongoing operations.

COMMISSION CONFERENCES

Jackson Conference

Over the years, the Commission has used region-wide conferences as a tool for reaching intelligent decisions in program and policy areas. To assist with the implementation of the finish-up program and to stimulate innovation projects a conference on "Jobs and Skills for the Future" was helded in April 1983. The conference focused on the human resource aspect of economic development. Over 250 leaders and experts from business, education, government, and labor discussed the problems of jobs and skill requirements and developed recommendations for Commission action.

Among the major conference conclusions were:

- High technology industries will provide an important but small part of new job opportunities in the Region. A high percentage of Appalachia's jobs will remain dependent on mining and labor-intensive manufacturing industries susceptible to the impacts of foreign competition and labor-saving technologies, with the service sector continuing to offer job opportunities.

- In the area of vocational education, there needs to be an assessment of equipment and teacher development requirements, combined with an effort to better relate vocational education to other parts of job training and employment support systems.
- Well-defined basic skills programs are a critical part of matching the capabilities of the educational system with the needs of the private sector and the requirements of the job market.
- Long-term state initiatives are needed to improve training for jobs. These include reduction of fragmentation and duplication of job training programs, selective modernization of vocational education programs and improved integration of secondary and postsecondary vocational programs.
- Full public/private partnerships, including those being established under the Job Training Partnership Act, need to be used to address the broad areas of job creation and training.
- Preparing new entrants and current workers for changing skills requirements of the job market is a step Appalachia must take to assure continued economic growth.
- Technological changes, coupled with demographic shifts in the labor market, require new strategies for preparing labor force entrants and upgrading the skills of current workers, who will constitute 75 percent of the labor force through the end of the century.

These conclusions made clear the necessity for intensifying efforts to link education and economic development strategies.

Consistent with the finish-up program goals and objectives, and to support Governors' leadership role in coordinating public and private resources for job training and economic development, the Commission adopted Resolution 555 to provide $1 million for special technical assistance and demonstration projects to further the development and upgrading of manpower in the Appalachian Region.

Assistance under this resolution can be used in combination with funds from Jobs and Private Investment Programs. Sixteen projects to upgrade vocational education, improvement of basic skills, computer literacy and strengthen public-private partnerships and customized training were assisted in all 13 Appalachian states.

Hershey Conference

As a follow-up to the conference on Jobs and Skills for the Future, the Commission sponsored a conference in 1984 directed at restoring the competitiveness and increasing productivity of industries in the Region. In a departure from its standard format, the conference "Appalachia Working: The Competitive Edge for Today and Tomorrow", was designed to disseminate information and share innovative ideas.

Panelist from the financial, textile, heavy manufacturing coal, services industries, universities and vocational schools discussed successful actions to strengthen the Appalachian economy and create jobs. The discussions led to a number of conclusions with significant implications for the Region.

- Research and development support from good universities is an important resource in attracting innovative firms and improving the competitive position of established basic industries; quality education is essential to economic growth; and improved basic skills are essential if the Appalachian work force is to participate in such growth.

- State and local enterprise development programs that package private and public resources to meet the specific needs of existing and emerging enterprises, particularly small businesses, can make a significant difference in meeting private sector requirements for capital, including private venture capital, and other essentials.

- Probably more than four out of five new jobs created in the future will be in the service industry, with many of these jobs bringing benefits similar to those in manufacturing. The creation of service jobs should generally receive, therefore, the same kind of support given to the creation of manufacturing jobs.

- To benefit from technology, states must encourage investments in public/private partnerships to support research and commercialization of innovative products. In addition, the application of technology to increase productivity can make our basic industries more competitive.

The Commission adopted policy changes recommended by the conference to encourage greater participation in the Region in enterprise development activities, including export development; packaging of financing and venture capital, increasing participation in programs such as the Small Business Innovation Research (SBIR) program that encourage technology development and commercialization of new products, and similar activities. Commission research funds were "set-aside" at the Governor Quorum Meeting in July to be used on a matching basis to encourage broader participation in these activities.

Thus far, six states have initiated projects. Among them are: a small business development assistance project; developing a data base on research capabilities in industry and universities; assistance to firms competing for SBIR awards; and, export financing technical assistance.

FINDINGS AND CONCLUSIONS

As a general statement, it can be said that the Finish-Up Program has made significant progress toward addressing infrastructure, health and manpower problems in the Region. The program has followed the intent set forth in the Governors' Report to the Congress. Private sector involvement has increased and state and local governments have assumed greater financial responsibility, even at a time when the demand for resources were the greatest. Policies adopted to implement the program, to a great extent, have produced little or no problems, especially during the second year. However, the more stringent requirements for documentation of jobs retained or created as well as reduced funding may have changed the patterns of investment. Also, interpretation of the 50/50 match requirement has created some confusion.

Lack of familiarity with the program, in terms of type projects eligible for ARC assistance has reduced the effectiveness of the program to some states. Also, there is some confusion as to legislative authority and policy resolutions adopted by the Commission. While the revised area development program requires strict criteria for project approval, there is still considerable flexibility in "type" of project eligible for ARC assistance (see Appendix I).

Jobs and Private Investment

In some instances, the JPI program might be viewed as a "new" economic development strategy for the Region. Several states see the program as "forcing" them from "preparing" for economic development to "actual" development. Also, policies requiring private sector investment and involvement had the effect of solidifying public-private partnerships where previously no relationship existed. JPI has brought some parts of the Region into the mainstream in terms of establishing small business assistance centers, and providing training and infrastructure for business start-up and expansion.

Each year under the Jobs and Private Investment Program, basic services to commercial or industrial sites that lead to jobs and private investment represented the top priority for investment, followed by industrial site development and enterprise development projects. In some cases, states are finding it difficult to tie jobs and private sector investments to ARC projects, while others are not. Some states targeted their limited ARC area allocation to a high state priority such as enterprise development or vocational trade programs, funding fewer of the basic community infrastructure projects with ARC grant funds. Under the finish-up program, JPI projects have the flexibilty to demonstrate new state demonstrations or initiatives.

This program has the capability to respond to individual private sector needs. It no longer has the ability to support speculative development. Indeed, one of the main strengths of this program and indeed the strongest criteria for selection of investments is the measured immediate impact.

While project development may have been reduced, both because of the limited amount of funds as well as the restrictive criteria, it is generally agreed upon that the projects that are funded are solid and provide the most immediate benefit to the economy of the Region.

Housing

The purpose of the housing program has been and continues to be to provide assistance in order to stimulate the production of housing for low and moderate income families. The 1980 Census figures still show that the Region's housing stock and particularly the housing stock within the distressed counties is in poorer condition (units without plumbing) than the rest of nation — almost double in all of the Appalachia and four times worse in distressed counties.

The ARC housing program investments for site development loans and grants or planning loans have leverage or supplement substantial public and private dollars. When federal housing production programs and state tax exempt bond funds were plentiful, ARC funds leveraged primarily public funds; however with the sharp reduction of federal funds for housing, the sunset of the mortgage revenue bonds (now lifted) and the implementation of Resolution 538 and the ARC Finish-up Program, small ARC investments are now leveraging both public and private dollars.

Despite the significant decrease in federal funds for the production of housing for low- and moderate-income families, high interest rates, and high construction costs, the states that have been active in the housing program have been creative and forward thinking in efforts to finance housing and to meet housing needs and demands. They have been persistent and successful in attracting private capital, in tapping the few public resources, like CDBG, that are available, and in stretching limited ARC dollars.

Although a success, a problem has surfaced with the restrictive interpretation of the Code. Strictly interpreted, its limits housing projects to those that attract or retain business or industry. In addition, housing under Resolution 538 is not being defined as an industry despite meeting private sector investment criteria.

- Private sector investment requirements limit the population that can be served.
- States want housing production to be considered an industry just like any other economic activity. This would broaden the scope of projects eligible for assistance.

States are not requesting a policy change, only a clarification of Resolution 538. States are under the impression that housing projects only need be consistent with State Development Finish-Up Plans.

Enterprise Development

While several states expressed an interest in enterprise development projects (export trade, small business assistance, incubator facilities), there does not appear to be much activity to actually develop such projects. Even with the support being given by the Commission to enterprise development projects through the Hershey conference, passage of Resolution 561, and the Mississippi wood conference, some states are still not prepared to develop projects dealing with these issues. A possible reason for this is that in some cases, other departments within state government have responsibility for enterprise development and the Appalachian state office may be reluctant to move into an area they do not have direct responsibility for.

Education

Equipment, as one would expect, continues to be the primary focus of ARC funds. Thirty-five equipment projects alone received over $3 million in FY 1983 and FY 1984. The Commission did not fund any manpower training projects in Central Appalachia (area of high unemployment due to coal and steel industries). The lack of immediate job prospects which is a funding requirement, prevented investments of this type.

While state education strategies and priorities are different, similar problems exist with the finish-up program. First, there is a misconception as to scope of projects that can be assisted. Resolution 555 emphasizes the necessity to intensify the link between education and economic development, but also establishes policies that allow for the development of projects that demonstrate and improve the quality of education, especially with regard to basic skills and employability skills. States could use the flexibility afforded under this resolution to support specifically defined education demonstration programs, many are not. Resolution 555 supplements policies to implement the Governors' Report.

A second concern expressed by some states is the level and detail of private sector involvement needed to satisfy the Code requirement. What comes in question is the intensity on the part of industries to commit time and become involved in the project. Certain states have resolved this problem by having the industry sign written agreements specifically committing time, instructors, equipment, etc.

Not using the flexibilities in Resolution 555 combined with the Code restrictions, has led to some states not making sizable investments in education, although they acknowledge problems exist. Rather than limiting assistance to upgrade equipment for jobs which addresses only one part of the education/training problem, some states still feel the need for programs at the elementary and secondary level, i.e., adult illiteracy and drop-out prevention, to avoid continued dependence on low-skill job markets. In other words, some states have to provide more basic education prior to attempting job-related training in some communities.

Employer-Related Child Care

The limited ARC funding assistance used for employer-related child care in the finish-up program should not be interpreted to mean there is not a need for child care nor are industries not interested in participating in programs. The concept of employer-related child care is still relatively new to the private sector and there is not much interest among employers to use federal funds for this initiative. Some states report that employers interested in providing child care assistance for their employees will do so without federal funds. In the future, the Commission is likely to fund only a few employer-related child care projects, but the states generally agree that the Commission should continue to promote the concept.

Distressed Counties

The Distressed Counties Program is a flexible program that the participating states successfully have been involved in. In the first year of this program (FY 1983), $9.6 million was allocated for projects; $11.7 million was approved -- over $2 million was shifted from states' "jobs and private investment" allocations to their "distressed counties" allocations to accommodate eligible projects. Only four of the participating ten states did not commit all of their funds to projects. In the second year (FY 1984), $7.9 million was made available among ten states. At the conclusion of the second year, a little over $10.0 million was approved - over $2 million shifted from "jobs and private investment", to "distressed counties" allocation. In the second year, only two of the participating states did not commit their entire allocations.

An issue raised by some states concerns their inability to assist sub-county areas of non-distressed counties with the provision of needed basic services. An example is: A 1983 project in Harlan County, Kentucky, that would have provided an area (without any water needed to be trucked in) with good potable water.

In the past, the Commission allowed for special development opportunities where the states could identify special areas of opportunity in their State Plans, in which projects normally not supportable under the growth area strategy could be funded. Some states have suggested such a mechanism for funding needed basic service projects in these sub-county areas. It would not be feasible or practical to allow the distressed counties allocation to be used or affected by such special cases. However, states could use the JPI funds for this purpose.

Health

Success in recruiting physicians for health manpower shortage areas has lessened the need in many areas for direct primary care services as evidenced by the placement of 268 National Health Service Corps and non-Corps physicians during the two years of the finish-up. The recruitment of private practitioners is expected to meet the basic primary care needs in most of the remaining designated counties as an alternative to federally-supported clinics.

The issues, problems and concerns raised by the states and the Federal Co-Chairman can be addressed or resolved through discussions at the Table (Alternates Meeting) and/or adoption of policy resolutions. One state expressed the view that ARC's flexibility was not being taken advantage of, more issues should be resolved at Commission meetings.

APPENDIX I
ACTIVITIES ELIGIBLE FOR ASSISTANCE UNDER THE FINISH-UP PROGRAM

	Policy Resolution			Code Sections						
Project Activities	538	555	561	201B	201A11	202	207	211	214	302 1/
Community Development Infrastructure:										
Water	X								X	X
Sewer	X								X	X
Solid Waste	X					X			X	X
Access Roads	X			X					X	
Other Industrial Site Development (i.e., Rail Spur)	X								X	X
Community Improvement (i.e., Downtown Revitalization)	X								X	X
Transportation Planning	X				X					X
Housing:										
Site Development	X						X			X
Planning Loans	X						X			X
Technical Assistance & Training	X						X			X
Revolving Loan Funds	X									X
- Rehab	X									X
- Mortgage Pools	X									X
- Construction Financing	X									X
- Interest Writedowns	X						X			X
Enterprise Development: 2/										
Loan Funds 3/	X									X
Export Strategies	X		X							X
Economic Analysis	X		X							X
Industrial Site Identification	X		X		X					X
Energy Related Renovation	X									X
Survey Industry Resources	X		X							X
Business Development Research	X		X							X
Technical Assistance & Training	X		X							X
Procurement Assistance	X									X
Health:										
Primary Care (Const., Equipment, Opr., Renv.)	X					X				X
Physician Recruitment	X									X
Infant Mortality (Opr., Renv., Equipment)	X					X				X
Technical Assistance	X					X				X
Education & Training:										
Job-Relevant Training	X							X		X
- Equipment	X							X		X
- Customized Training	X							X		X
- Course Modernization	X							X		X
- Upgrading	X							X		X
Basic Skills	X	X						X		X
- Reading, Writing, Computation	X	X						X		X
- Computer Literacy	X	X						X		X
Other		X						X		X
- Demonstrations in Quality Educ.		X						X		X
- Teacher Development		X						X		X
- Job Information Systems		X						X		X
Employer-Related Child Care:										
Operations	X					X				X
Technical Assistance	X					X				X
Equipment	X					X				X
Construction & Renovation	X					X				X

1/ Section 302 - Under this section the Commission is charged with addressing problems and opportunities which are characteristic of the Region and which can have a significant impact on the Region's future. The states may fund research, demonstration and technical assistance projects from the area development allocation in any program area. Since these projects focus on problems shared by all states the Commission generally administers these projects.

2/ Section 224(b) of the ARDA states that ARC grant funds may not be used, either directly or indirectly, to:

- o Finance the cost of industrial plants, commercial facilities, machinery, working capital or other industrial facilities;
- o Finance the cost of facilities for the generation, transmission or distribution of electric energy; or
- o Finance the cost of facilities for the production, transmission or distribution of gas, natural, manufactured, or mixed.

Grant funds may be used by state, local government, public and private nonprofit bodies for:

(1) Public infrastructure benefiting industrial or commercial areas where the infrastructure is type traditionally recognized and accepted as a public work or public responsibility (i.e., as water, sewer, public roads).

(2) Acquisition and site preparation of suitable industrial/commercial sites. Improvements are limited to: demolition, clearance, grading. (Land acquisition may include the cost of buildings on the land which are unsuitable for intended industrial or commercial use and will be demolished in order to clear the site for the preparation of an industrial park.)

(3) Grants may be made to private for-profit firms when the project is an energy-enterprise development demonstration authorized in Section 302(b)(1) of the Act which authorizes up to $300,000 each fiscal year for energy resource related demonstration projects.

3/ Loan capitalization - Under Section 302(b)(1) of the ARDA, authority is granted for up to $3,000,000 per year in energy resource related demonstration projects that are exempt from provisions of Section 224(b)(2), (3) or (4).

APPENDIX II

RESOLUTION 538 establishes policies and guidelines for carrying out the Jobs and Private Investment, Distressed Counties and Health Finish-Up Programs. The resolution calls for each state to establish priorities in its Appalachian Development Plan. Under JPI, ARC assistance is available for renovation, equipment, organizational and start-up cost, and the first year of operation. Construction assistance is an eligible cost for primary care facilities under the Health Finish-Up Program and facilities in distressed counties. Projects under the JPI include the following:

- o Infrastructure projects, including but not limited to, sewer or water system improvements, access roads, or similar community facilities for or directly supporting enterprise sites;
- o Job-relevant training programs, including customized training and upgrading programs to improve the immediate job prospects of people in the Region;
- o Basic skills programs for adults and secondary level vocational students to improve reading, writing, computational or basic computer literacy skills in direct preparation for training or employment;
- o Establishing or adapting child care programs to meet the needs to specific industries and their employees. Such employer-related projects may include construction where necessary;
- o Housing programs which are needed to support the expansion or retention of business and industry; and
- o Energy enterprise development programs, such as assistance for developing coal marketing and export strategies, technical assistance for small business development or revolving loan funds, subject to any limitation of the Act.

Under the special Commission-level health program, funds will be used to complete the Commission's objectives of bringing primary health care within a reasonable commuting distance of people in the Region, of reducing infant mortality and of recruiting needed health manpower in shortage areas. Funds may be provided for planning and management technical assistance, construction (for primary care facilities only), renovation , organizational costs, start-up and first year of operations in designated counties of the Region. Eligible activities include:

- o Primary care projects to provide reasonable access (as a rule, within 30 minutes in normal conditions) by the general population of a Health Manpower Shortage Area to basic day-to-day health care by a physician, physician extender or nurse. Primary care, for the purposes of this program, is family oriented, entry-level ambulatory care, and assumes responsibility for diagnosis, treatment, follow-up and appropriate referrals to secondary- and tertiary-level services. A primary care project may include basic dental, preventive, or home health care as an adjunct to the core primary care service.

The objective of the Distressed Counties Program under the resolution is to fund projects that meet the most severe need for safe drinking water and affordable waste disposal. A special set-aside was identified to achieve this objective, and counties are designated for ARC assistance.

Activities eligible for assistance are:

- Projects to assure proper installation, operation and maintenance of facilities to provide safe drinking water, affordable waste disposal or other similar basic services.
- All projects eligible for assistance under the Jobs and Investment Program.

The general rules for project approval under Resolution 538 still allow considerable flexibility, but adheres to the Governors' intent that state and local government increase their share of the financial burden. All ARC grants shall not exceed 50 percent of total project cost (an exception to this limitation was later made for distressed county programs in Resolution 548).

1. All projects under JPI must demonstrate evidence of private sector involvement.
2. All projects under JPI must accomplish at least one of the following: create or retain jobs, upgrade manpower, or bring about a private investment that enhances economic development potential.
3. All JPI projects should state when expected results of projects will begin, and, if applicable, the number of jobs that will be retained or created.

Grants under this resolution may be made directly by ARC or through federal agencies.

APPENDIX III

Resolution 555 was adopted by the Commission to implement findings of the ARC "Conference on Jobs and Skills for the Future", in Jackson, Mississippi, in April 1983. The resolution expanded Resolution 538 and allocated $1 million for special technical assistance and demonstration projects to develop and upgrade manpower in Appalachia. The purposes of projects under this resolution are as follows:

- to strengthen private sector participation;
- to establish linkages among vocational institutions and other public and private programs;
- to obtain and exchange labor market information;
- to demonstrate quality improvements in education such as basic skills and employability skills; and
- to support studies to link training to economic development.

The demand for projects under this resolution has since exceeded the allocation, thus to some extent reduced the incentive for state projects. However, projects are eligible for assistance under Section 302 or JPI, notwithstanding any limitations on funding criteria in Resolution 538.

APPENDIX IV

Resolution 561 was adopted by the Commission in July 1984. The basis of the resolution is the ARC Conference on "Appalachia Working: The Competitive Edge for Today and Tomorrow", held in Hershey, Pennsylvania. Resolution 561 complements policies adopted in Resolution 555, in that its focus is on strengthening the economy, thus creating jobs for people in Appalachia. The resolution calls for the following actions:

- Encourages the states to help enterprises especially small businesses, and declares technical assistance in this area to be a priority.
- Encourages states and local development districts to utilize Resolution 538 to fund enterprise development programs to meet the specific needs of existing and emerging businesses.
- Authorizes assistance in job-relevant training and upgrading programs in recreation and other service industries.

The resolution authorizes Commission funding of projects for up to 100 percent of costs. Not more than 50 percent of any project's costs may be funded from a special set-aside of Commission Research and Technical Assistance funds but, as in Resolution 555, following the Jackson conference, these funds can be combined with those allocated to the states under the Jobs and Private Investment program, or JPI funds can be used exclusively for a demonstration project. Because of the demonstration nature of this program, total Commission assistance at the 100-percent level from the set-aside and/or the JPI program will be limited to $250,000 per state. States may continue to use their JPI allocations for additional or complementary projects, subject to the 50-percent funds limitation in Resolution 538.

An amount of $300,000 is available from the special set-aside established for this program in FY 1984; additional resources are expected to be allocated from Commission Research in FY 1985.

APPENDIX V

DISTRESSED COUNTIES LIST

	(67)	(80)	(74)
	FY 1983	FY 1984	FY 1985
ALABAMA:	Lawrence	Lawrence	Lawrence
	Bibb	Bibb	Bibb
	Pickens	Pickens	Pickens
	Clay	Clay	
	Randolph	Randolph	Randolph
	Coosa	Coosa	Coosa
		Blount	Blount
GEORGIA:	Dawson	Dawson	
	Towns	Towns	Towns
	Union	Union	Union
KENTUCKY:	Lewis	Lewis	Lewis
	Carter	Carter	Carter
	Lawrence	Lawrence	Lawrence
	Lincoln	Lincoln	Lincoln
	Powell	Powell	Powell
	Bath	Bath	Bath
	Menifee	Menifee	Menifee
	Morgan	Morgan	Morgan
	Magoffin	Magoffin	Magoffin
	Clinton	Clinton	Clinton
	McCreary	McCreary	McCreary
	Russell	Russell	Russell
	Clay	Clay	Clay
	Jackson	Jackson	Jackson
	Knott	Knott	Knott
	Lee	Lee	Lee
	Owsley	Owsley	Owsley
	Wolfe	Wolfe	Wolfe
		Letcher	Letcher
		Wayne	Wayne
		Fleming	Fleming
		Whitley	Whitley
MISSISSIPPI:	Benton	Benton	Benton
	Marshall	Marshall	Marshall
	Tippah	Tippah	Tippah
	Noxubee	Noxubee	Noxubee
	Webster	Webster	
	Winston	Winston	Winston
	Kemper	Kemper	Kemper
NORTH CAROLINA:	Cherokee	Cherokee	Cherokee
	Jackson	Jackson	
	Swain	Swain	Swain
		Clay	Clay
		Ashe	Ashe

OHIO:	Adams	Adams	Adams
	Pike	Pike	Pike
PENNSYLVANIA:	Sullivan	Sullivan	
TENNESSEE:	Clay	Clay	Clay
	Cumberland	Cumberland	Cumberland
	Fentress	Fentress	Fentress
	Jackson	Jackson	Jackson
	Overton	Overton	Overton
	Pickett	Pickett	Pickett
	Campbell	Campbell	Campbell
	Claiborne	Claiborne	Claiborne
	Cocke	Cocke	Cocke
	Scott	Scott	Scott
	Hancock	Hancock	Hancock
	Grundy	Grundy	Grundy
	Meigs	Meigs	Meigs
		Bledsoe	Bledsoe
		Sequatchie	Sequatchie
		Van Buren	Van Buren
		Monroe	Monroe
		White	White
VIRGINIA:	Lee	Lee	Lee
WEST VIRGINIA:	McDowell	McDowell	McDowell
	Summers	Summers	Summers
	Lincoln	Lincoln	Lincoln
	Mingo	Mingo	Mingo
	Clay	Clay	Clay
	Pocahontas	Pocahontas	Pocahontas
	Webster	Webster	Webster
	Calhoun	Calhoun	Calhoun
	Roane	Roane	Roane
	Taylor	Taylor	Taylor
	Braxton	Braxton	Braxton
	Pendleton	Pendleton	Pendleton
	Gilmer	Gilmer	
		Doddridge	Doddridge

APPENDIX VI

APPALACHIAN REGIONAL COMMISSION

PROPOSED RESOLUTION NUMBER 548
March 1, 1983

A RESOLUTION Raising the Ceiling on ARC
Participation in Funding Projects in
The Distressed Counties Program

Section 1. Purpose. The purpose of this resolution is to revise the policy limiting Appalachian Regional Development Act funding of projects under the Finish-Up Program adopted in Resolution 538, July 28, 1982, to permit greater participation with ARDA funds in the Distressed Counties Program. Resolution 538 established a maximum limit on ARDA funding of 50 percent of total cost for all Area Development projects. The Commission has determined that this limit is too restrictive for projects in distressed counties where needs are great and local resources scarce and already overburdened.

Section 2. Percentage Limitations in Distressed Counties Program. Projects in distressed counties may be assisted with ARDA funds up to the maximum limits on Federal assistance provided in the Appalachian Regional Development Act, as amended.

Section 3. Amendment of Resolution and Code. The provisions of Resolution 538 and of the ARC Code inconsistent with this Resolution are amended to conform with this Resolution.

APPROVED: March 1, 1983

FRANCIS E. MORAVITZ
Executive Director and
Secretary to the Commission

APPENDIX VII

HEALTH FINISH-UP COUNTIES

No Asterisk = eligible for Primary Care only
* = eligible for Infant Mortality Reduction only
** = eligible for Primary Care and Infant Mortality Reduction
Underlined counties are also designated Distressed Counties.

	(84) FY 1983	(102) FY 1984	(87) FY 1985
ALABAMA	Chambers*	Chambers*	Chambers*
	Cherokee**	Cherokee**	Cherokee**
		Elmore*	Elmore*
		Fayette*	Fayette*
	Lawrence*	Lawrence*	
	Walker	Walker	Walker
	Winston**	Winston**	Winston**
GEORGIA	Banks**	Banks**	Banks
	Cherokee	Cherokee	Cherokee
	Dawson*	Dawson*	
		Franklin*	Franklin*
	Heard*	Heard*	
	Jackson	Jackson	Jackson
	Murray**	Murray**	Murray
	Towns*	Towns*	Towns*
	Walker	Walker	Walker
KENTUCKY	Bell*	Bell*	Bell*
	Clinton*	Clinton*	
	Garrard	Garrard	Garrard
	Greenup	Greenup	Greenup
	Knox	Knox	Knox
	Laurel	Laurel	Laurel
	Lewis*	Lewis*	
		Lincoln**	Lincoln**
	McCreary*	McCreary*	
		Martin*	Martin*
		Menifee*	Menifee*
	Montgomery	Montgomery	Montgomery
	Owsley	Owsley	Owsley
	Rockcastle	Rockcastle	Rockcastle
	Russell	Russell	Russell
	Whitley	Whitley	Whitley
	Wolfe	Wolfe	Wolfe

	FY 1983	FY 1984	FY 1985
MISSISSIPPI	Choctaw	Choctaw	Choctaw
	Clay	Clay	Clay
	Lee*	Lee*	
	Lowndes**	Lowndes**	Lowndes**
	Noxubee*	Noxubee*	Noxubee*
	Oktibbeha*	Oktibbeha*	Oktibbeha*
	Prentiss	Prentiss	Prentiss
	Tippah*	Tippah*	Tippah*
	Tishomingo	Tishomingo	Tishomingo
	Union	Union	Union
	Webster*	Webster*	
NEW YORK	Chenango	Chenango	Chenango
		Delaware	Delaware
		Schoharie	Schoharie
	Steuben	Steuben	Steuben
	Tioga	Tioga	Tioga
NORTH CAROLINA		Ashe*	Ashe*
	Yancey	Yancey	Yancey
OHIO	Carroll	Carroll	Carroll
		Harrison*	Harrison*
	Monroe	Monroe	Monroe
	Pike	Pike**	Pike**
	Vinton	Vinton	Vinton
PENNSYLVANIA	Bradford	Bradford	Bradford
	Clinton	Clinton	Clinton
	Crawford	Crawford	Crawford
	Erie	Erie	Erie
	Fulton	Fulton	Fulton
	Juniata	Juniata	Juniata
	Mercer	Mercer	Mercer
	Monroe	Monroe	Monroe
	Montour	Montour**	Montour**
		Northumberland	Northumberland
	Sullivan	Sullivan	Sullivan
	Wayne	Wayne	Wayne
TENNESSEE		Clay*	Clay*
	Fentress*	Fentress*	
	Jackson	Jackson	Jackson
	Meigs*	Meigs*	
		Monroe*	Monroe*
	Polk	Polk	Polk
		Sequatchie*	Sequatchie*
	Van Buren	Van Buren**	Van Buren**

	FY 1983	FY 1984	FY 1985
VIRGINIA	Bath	Bath	Bath
	Bland*	Bland*	
	Buchanan*	Buchanan*	
	Dickenson	Dickenson	Dickenson
	Floyd	Floyd	Floyd
		Highland*	Highland*
	Giles*	Giles*	Giles*
	Russell**	Russell**	Russell
		Wise*	Wise*
WEST VIRGINIA	Calhoun	Calhoun	Calhoun
	Clay	Clay**	Clay**
	Gilmer	Gilmer	Gilmer
	Hampshire	Hampshire	Hampshire
	Jefferson	Jefferson	Jefferson
	Mineral	Mineral	Mineral
	Ohio*	Ohio*	
	Pendleton**	Pendleton**	Pendleton**
	Pleasants*	Pleasants*	Pleasants*
	Pocahontas*	Pocahontas*	
	Randolph	Randolph	Randolph
		Ritchie**	Ritchie**
	Roane**	Roane**	Roane
	Summers*	Summers*	Summers*
	Tucker*	Tucker*	
	Upshur**	Upshur**	Upshur
		Webster*	Webster*

Mr. Nowak. Our next witness is Mr. Ray O. Bass, the highway director of the Alabama Highway Department. He will be accompanied to the witness chair by Mr. Tom Espy, Jr., who is the chief highway engineer for the State.

Mr. Bass, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

PREPARED STATEMENT OF
HIGHWAY DIRECTOR RAY D. BASS OF ALABAMA
TO
HOUSE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
HONORABLE HENRY J. NOWAK, CHAIRMAN
MARCH 21, 1985
REGARDING
THE APPALACHIAN REGIONAL DEVELOPMENT ACT AMENDMENTS OF 1985
HR 10 - TITLE II

Mr. Chairman, my name is Ray D. Bass. I am the Highway Director for the Alabama Highway Department and have served in this capacity under Governor George C. Wallace since January, 1983. I also served as Highway Director under Governor Wallace from 1972 to 1978. During these two periods of time I have been deeply involved in matters pertaining to the Appalachian Regional Commission and especially to the highway matters pertaining to the Commission. I am deeply appreciative of the opportunity of speaking in behalf of the chief state highway officials of the 13 Appalachian states regarding the highway provisions of HR 10 because I know from my experience that the Appalachian Highway Program has been a very important aspect of the growth within the Appalachian Region since 1965.

I have with me today the Alabama Highway Department Chief Engineer Tom Espy, Jr., who has been involved with the various aspects of the Appalachian Highway Program since 1971. In 1971 he became the Alabama Highway Department's Federal Aid Engineer with the responsibility of coordinating our work with the Federal Highway Administration and the Appalachian Regional Commission. He has continued with these responsibilities since 1971 and now continues to be involved with the ARC through his position as Chief Engineer.

Mr. Chairman, we are excited about this program because it works. We are excited about the fact that in the first 16 years of the Appalachian Regional Commission's existence that 182,700 jobs were created in manufacturing plants with 50 or more employees and another 32,300 jobs were created in plants with fewer than 50 employees. We know that for each manufacturing job that was created that at least one indirect service job was created thereby opening up some 430,000 jobs throughout the 13 state Appalachian Regional area. We know that 1,950 miles of the Appalachian Development Highway System have been placed under contract with 2,030 miles expected to be placed under construction prior to the end of Fiscal Year 1986. We know that the Appalachian Regional Commission has made an impact on the health and education of the area and on the economic development of the area, but there is much left to be done. HR 10 represents the framework for continuing this 20-year-old program and establishes an orderly phase-out of the highway work effort in accordance with the recommendations of the governors of the 13 states.

I ask that your committee give every consideration to the needs for the highway provisions of HR 10 and that you recommend it to the full committee and to the full House for approval. If you do so, it will become the planning tool for all of the state DOTs and state highway departments to use during the next seven years in an orderly phase-out of the Appalachian Highway Program.

In 1964 Appalachia was a remote, inaccessible, worn out, mountain land destined to go nowhere within the pitfalls of the coal industry. Modern industries would not locate in the area because Appalachia lacked highways. It had winding two-lane roads that were poorly designed, unsafe, and in various stages of disrepair. There were no 55-mile-per-hour highways linking production sites to market. Appalachia was isolated from the mainstream of American economic life by poor roads, and there was no way that the region could develop economically.

In 1965 Congress authorized the construction of the Appalachian Development Highway System (ADHS) and made it clear that the new system was to be designed as a supplement to the Interstate System. Its highways would connect with one another or with those of the Interstate System, and they would serve Appalachia rather than bypass Appalachia which so many of the Interstate System roads did. They would be high grade roads within 30 miles of sizable Appalachian populations, and they would provide access to areas within the region as well as the markets in the rest of the nation. The underlying aim of the new Appalachian Development Highway System were three in number: to relieve Appalachia's isolation, to attract new industry and commerce, and to give the region a framework for investments and improvements in health, education, housing, and community development. In the time period between 1965 and 1980 the Congress established an Appalachian Development Highway System in the magnitude of 3,025 miles.

As a supplement to the Appalachian Development Highway System and as a way of serving specific needs in specific areas the Congress also established the Appalachian Access Road Program which usually consisted of roads of shorter length and lesser design standards that were built to serve businesses, industries, vocational schools, or other special purposes throughout the Appalachian Region.

Alabama was a "Johnny come lately" to the Appalachian Development Highway System Program. We were deeply involved in the Appalachian Access Road Program from the very beginning of the Appalachian Regional Commission in 1965, and we were able to obligate all of our funds for access roads on a regular basis. We built a number of access roads between 1965 and 1973, and the worldwide economic conditions at that time created by the oil embargo began to devalue the highway construction dollar. The same problem was affecting those ten states which were part of the Appalachian Development Highway System. Funds available to complete the original system of highways were being swiftly eroded by high construction costs. When Alabama, Mississippi, and South Carolina were added to the list of those Appalachian states with a development highway corridor, construction costs were so great that we often felt that we were making very little progress toward completion of the Appalachian Development Highway System. For one thing, costs for construction in Appalachia are two to three times higher than construction in less rugged terrain. Construction in Appalachia requires heavy grading and many more bridges and drainage structures than required in flatter areas. By 1981 when the Federal Administration expressed a desire to cut back on regional associations, and the governors were required to come up with a planned phase-out program for the completion of the Appalachian Development Highway System in order to coordinate with the then expected completion of the Interstate System in 1989, it was rather apparent that the original Development Highway System would not be finished.

The governors' highway program revision of 1981 established the framework of completion of the Appalachian Development Highway System. It involved scaled-down mileages and funding ceilings with funding to be completed within eight years. Recommendations included in HR 10 remain basically the same recommendations that were established by the governors in 1981 except that the program is now to be completed within seven years by 1992. The program has been extended outward insofar as the date of completion is concerned because of the fact that Congress has not established an annual level of effort equal to the annual recommendations made by the governors.

The revised highway program including recent additional commitments by certain states for the use of non-Appalachian funds consists of the following:

1) Funding assistance will be limited to completion of 725 miles of the approximate 1,300 miles not constructed on the planned system. About 173 miles would be completed substantially with state funds, and 552 miles with federal funds resulting in completed corridor construction of 2,477 miles or about 82% of the presently authorized mileage.

2) Federal financial assistance would continue at the current 80% federal matching rate and would amount to $2.056 billion over the seven-year period ending in 1992.

3) The 725 additional miles to be completed during this period are those uncompleted or partially completed segments of the system in each state which carry the highest overall traffic, those segments expected to carry the largest volumes of coal by 1985, those segments which contribute most to the regional economic development opportunities, and those which would eliminate the most restrictive gaps in continuity. They also include those segments considered to be the most critical state line crossings.

4) The eligible segments have been identified in each state and will be constructed within individual state construction priorities.

5) States will be encouraged to build additional segments of the system using state highway financing resources. Priority lists include highway projects nearly $940 million in excess of proposed ARC funding which the states intend to finance by non-ARC means during the proposed finish-up. Alabama is one of the states which has committed to the construction of 60.1 additional miles on our own initiative. By working with the Appalachian Regional Commission we were able to agree on some flexibility that will allow us to continue with this most needed Appalachian program and at the same time will allow us to complete segments of the development highway system in Alabama that will best meet our future needs.

6) Annual allocations by state will continue to be made and all states are being encouraged to maximize progress and minimize cost through use of pre-financing and loans of allocations between states. No doubt, you are aware that the Appalachian Program is one of the best federal programs ever developed toward fostering positive relationships among states in a region. Throughout the twenty-year period there have been loans of allocations between states that have benefited both states tremendously and the ARC has encouraged all states to pre-finance their projects where the state had the financial capability to do so. Alabama again has seen fit to participate in this pre-financing program although on a much smaller scale than some of the states like Kentucky, who have been so deeply involved as a result of receiving a greater share of the Appalachian Highway apportionments. We have participated in the pre-financing in order that we be assured that we receive all of the apportioned funds coming to Alabama in any given year and we have found this program to very effectively meet our needs. In addition to Alabama, a number of other states have pre-

financed work on the Development Highway System. At the beginning of 1985, these states had pre-financed $152.6 million at 70% of the total cost of $236.1 million. On pre-financed work, states provide 100% of the funds initially and are reimbursed for the federal share when the projects are converted to regular ARC projects.

7) The Local Access Road Program would be continued for four years and funded at $12 million annually.

Alabama's two Appalachian corridors (V and X) are two of the most deficient highway corridors in Alabama. Both routes complement the Interstate System and are needed to open up areas with considerable developmental potential where adequate access is not available.

Corridor X will ultimately connect the industrial areas near Birmingham and Memphis and will serve the Tennessee Tombigbee Waterway. It will provide the coal fields of Jefferson, Walker, and Shelby Counties with adequate service to major markets. It will serve as a major commuting facility near Birmingham and will serve major gas fields in Fayette County. It will open Alabama up to major markets in the midwestern part of the United States. In short, through the efforts of the ARC we have been given the opportunity to develop an area of Alabama in a way that we have not been able to accomplish through other federal-aid programs.

Corridor V serves the Tennessee Valley area of Appalachian Alabama. It serves the space city of Huntsville and the new industrial areas along the river from Huntsville to Scottsboro to Chattanooga that have developed as a result of that portion of Corridor V that has already been built. The route serves two major nuclear power facilities, the Redstone Arsenal and several TVA hydroelectric facilities.

Corridors X and V are important to Alabama for all the reasons that have made them Appalachian corridors, yet they are important to us for many other reasons also. These highways will replace antiquated two-lane highways with bad alignment and grades, with capacity constraints at many locations, and with hazardous areas in need of correction. Alabama has an important stake in these roads. They mean a great deal to our citizens. They benefit all people of our state whether they be used to ride on or whether they be used to receive goods from. We can't affort to abruptly stop a public works effort that has been developing for 20 years that has so positively affected so many people. There is much yet to be done.

And Alabama doesn't stand alone. The points made regarding Corridors X and V can be stated for corridors in 13 states. Transportation programs benefit everyone, and we believe that the good works accomplished in Appalachia over 20 years have been more successful than in most cases because there was so much to be done.

The revised highway program would leave unimproved about 18% of the previous system authorized by Congress. Full funding through 1992 would require $2.056 billion in federal funds as compared with $7.1 billion to complete the entire system. Over 3/4 of the mileage would be consructed and with respect to the 25 corridors throughout the region, 12 corridors would be completed entirely, five additional corridors would be at least 80% completed, four corridors would be between 60% and 80% completed and the mileage on four corridors would be less than 60% complete.

The Appalachian Development Highway System is a part of the Federal Aid Primary Highway System, but even so, the essential gaps in the Development Highway System cannot be completed with regular federal aid primary highway funds within a reasonable time period. The Federal-Aid Primary System in the Appalachian states includes 76,580 miles (excluding Interstate miles). The 1985 federal-aid primary highway apportionment to the Appalachian states was $757.5 million. The needs on the Primary System are great since this system has been neglected during the 29 years of construction of the Interstate System. Only since passage of the Surface Transportation Assistance Act of 1982 has funding been increased to the present significant level and these funds will still not meet the statewide needs on the Primary System. Passage of HR 10 is necessary to establish a specific funding source for these specific Appalachian Development Highway needs.

I believe the focus of HR 10 can be found in Section 205 of this document which establishes the maximum funding limitations for each of the fiscal years between 1986 and 1992. These funding requirements as referenced in Section 205(a) would establish a minimum corridor program of $220 million in 1986, rising upward to $362 million in 1992, making a total in the corridor funding level of $1,994,000,000. Forty-eight million dollars of Appalachian Access Road funds would be provided as the total during the first four years of the finish up program and a $2 million per year administrative cost, totaling $14 million for the time period, would result in a total finish-up program under HR 10 of $2,056,000,000. This would include a total finish up program of 2,891.5 miles, including 414 miles that are now deemed adequate. Also included in the total mileage figure of 2,891.5 miles is the value of 147.8 miles which represents commitments from six states that they will complete mileage of this magnitude with other than ARC Funds.

Section 205(b) addresses the subject of the conversion of pre-financed projects to a fully funded federal-aid project. This provision is a most important technical amendment that has plagued our day-to-day operations for several years. In the present situation, we can fund a completely new project at 80%, but if we pre-finance a project and then convert it to a fully funded project, we can receive only 70%. This certainly does nothing to encourage a pre-financing program. Section 205(b) straightens this problem out by allowing 80% federal participation in all situations.

Limited funding since 1981 has only permitted states to fund or partially fund construction on one or two projects each year. Lack of an authorization since 1982 has hurt planning on the remaining miles to be constructed since a considerable time period is required for work required before construction can begin. Engineering and rights-of-way acquisition must be scheduled to permit construction when funding is available, both federal and state matching funds.

We feel that the record now makes clear the basic importance of the highways to the economic development of Appalachia. Even though the full system is now only slightly more than half complete, the Appalachian Development Highway System impacts are already considerable. Industries and business have grown along the highways; enterprises not directly along the highways were strengthened by the dramatic opening up of the region by the highway system; the Appalachian Development Highway system is a vital link in moving Appalachian coal to domestic and foreign markets; and the cost and difficulty of extending health, education and other services in the region were reduced by the highway. Potential benefits from the expenditures made to date on the development highway system cannot be fully realized until the critical gap sections are constructed. Approximately 79% of the revised system has been contracted for construction. In addition to the $2.9 billion in ARC funds obligated, the states have spent an additional $1.6 billion in matching funds on the system, and this represents a substantial commitment from the states. In Alabama we feel strongly that if your time and money are involved in a work effort that it makes you much more committed to the task. We ask that you allow us to complete another 25 percent of the originally planned system through these next seven years in order that this most important area reach its potential for becoming involved in the main stream of America's economic development.

And in conclusion, Mr. Chairman, I want to relate to you one of the more famous legends in Alabama regarding politicians in our state. Buck's Pocket State Park is a very beautiful State Park in north Alabama near the Tennessee River. It is in a very rugged area of the state with many beautiful vistas, each of which have a very long, long plunge to the bottom of a river gorge. Legend has it that all defeated politicians retire to Buck's Pocket to observe these beautiful vistas and to measure the vastness of the plunge into the gorge. One of our many earlier Appalachian Access Road projects was to develop adequate access to this beautiful State Park. I promise you very sincerely and I would also make the same promise to others on the committee who desire for me to do so that I will speak to the DOT Secretary of New York in behalf of the consruction of an access road to a similar vista in New York if you will work toward the passage of HR 10.

Thank you for your time and consideration.

Ray D. Bass
Highway Director
State of Alabama

Mr. NOWAK. Please proceed.

TESTIMONY OF RAY D. BASS, HIGHWAY DIRECTOR, ALABAMA HIGHWAY DEPARTMENT, ACCOMPANIED BY TOM ESPY, JR., CHIEF HIGHWAY ENGINEER

Mr. BASS. Mr. Chairman, I am Ray D. Bass, director of the Alabama Highway Department. I have been in this position since 1971 except for a short interlude. I have been active in the ARC Program, the Highway Development Program, an access road program for quite some time. I am here on behalf of the chief executive officers of the various departments of transportation and highway departments within the region.

We submitted printed documents earlier for the record.

Mr. NOWAK. We will, of course, incorporate the total document into our record, and without objection that is so ordered.

Mr. BASS. Mr. Chairman, we have been very active in this program, as I stated earlier, and we're excited about it. We have been from its inception some 20 years ago. I think you have just received testimony of the facts of the jobs that have been created or have been activated within this area. I would like to add to this the fact that there have been some 182,700 jobs directly created during this period of time in plants of greater than 50 employees, and some 32,000 jobs were created in plants with fewer than 50,000 employees. This, along with the indirect service jobs, we estimate that some 430,000 jobs were created in this region due directly to the access and development highway systems that have been developed.

We know that 1,950 miles of Appalachian Development Highway System have been placed under contract, with 2,030 miles expected to be placed under construction prior to the end of fiscal year 1986.

We know that the Appalachian Regional Commission has made an impact on the health and education of the area and on the economic development of the area. But there is much left to be done. H.R. 10 represents the framework of continuing this 20-year-old program and establishes an orderly phaseout of the highway work effort in accordance with the recommendations of the Governors of the 13 States.

I respectfully ask that your committee give every consideration to the needs of the highway provisions of H.R.10 and that you recommend it to the full committee and the full House for approval. It will become a planning tool for all the State DOT's and highway departments to use during the next 7 years in an orderly phaseout of the Appalachian Highway Program.

Alabama was a "johnny-come-lately" to the Appalachian Development Highway System. We were deeply involved in the Appalachian Access Road Program at the very beginning of the Appalachian Regional Commission in 1965 and were able to obligate all of our funds for access roads on a regular basis. We built a number of access roads between 1965 and 1973, and the worldwide economic conditions at that time created by the oil embargo began to devalue the highway construction dollar. The same problem was affecting those 10 States which were part of the Appalachian Regional Highway Development System.

Funds available to complete the original system of highways were being eroded by high construction costs. When Alabama, Mississippi, and South Carolina were added to the lists of those Appalachian States with a development highway corridor, construction costs were so great that we often felt we were making little progress toward the completion of this entire system.

For one thing, costs for construction in Appalachia were two to three times higher than construction in less rugged terrain. Construction in Appalachia requires heavy grading and many more bridges, drainage structures, and other aspects of construction than required in flatter areas. By 1981, when the Federal administration expressed a desire to cut back on the regional associations, the Governors were required to come up with a planned phaseout program for the completion of the Appalachian Development Highway System.

In order to coordinate with the then-expected completion of the Interstate System in 1989, it was rather apparent that the original development highway system would not be finished. The revised Highway Program, including recent additional commitments by certain States for the use of non-Appalachian funds, consists of the following:

Funding assistance is to be limited to completion of 2,477 miles, or about 82 percent, of the presently authorized system.

Federal financial assistance would continue at the current 80 percent Federal matching rate and would amount to $2.056 billion over the 7-year period ending in 1992.

The additional miles to be completed during this period are those uncompleted or partially completed segments of the system in each State which carry the highest overall traffic; those expected to carry the largest volumes of coal by 1985; those segments, which contribute most to the regional economic development opportunities; and those which would eliminate the most restrictive gaps in continuity. They also include those segments considered to be the most critical State line crossings, of which we have two in the State of Alabama. One ends in Mississippi and ultimately into Tennessee and another into Tennessee near Chattanooga. Other States have similar State line crossings that are very critical.

The eligible segments have been identified in each State and will be constructed within individual State construction priorities. Then the States will be encouraged to build additional segments of the system, using highway financing resources. The priority list includes highway projects of nearly $940 million in excess of the proposed ARC funding, which the States intend to finance by non-ARC means during the proposed finish-up period. Alabama is one of the States which has committed to construct some 60 additional miles of our own initiative.

By working with the Appalachian Regional Commission, we were able to agree on some flexibility that will allow us to continue with this most needed Appalachian Program and at the same time will allow us to complete segments of the development highway system in Alabama that will best meet our future needs.

Annual allocations by State will continue to be made, and all States are being encouraged to maximize progress and minimize cost through use of prefinancing and loan applications between States.

Finally, the Local Access Road Program would be continued for 4 years and funded at $12 million annually.

If you'll pardon the use of our example as to what these systems mean to the various States, in Alabama we have two Appalachian corridors, V and X, and which are two of the most deficient highway corridors in Alabama. Both routes complete the Interstate System and are needed to open up areas of considerable development potential where adequate access is not at the present time available.

Corridor X will ultimately connect the industrial areas of Birmingham and Memphis and will serve the Tennessee Tombigbee Waterway. It will provide the coalfields of Jefferson, Walker, and Shelby Counties with adequate service to major markets. It will service a major computing facility near Birmingham and will serve major gas fields in the Fayette County area, so that you can see that resource areas of the State are being affected. It will open Alabama to major markets in the western part of the United States.

Through the efforts of the ARC, we have been given the opportunity to develop these areas in Alabama in a way that we would not have been able to have done otherwise.

Corridor V serves the Tennessee Valley area of the Appalachian Alabama. It serves the space city of Huntsville and the new industrial areas along the river from Huntsville to Scottsboro and then to Chattanooga. That portion of corridor X has already been built. The route that serves the two major nuclear facilities, Redstone Arsenal, and the several TVA hydroelectric facilities are part of the part that has been completed.

Corridors X and V are very important to Alabama for all the reasons that have made them Appalachian corridors. Yet they are important to us for many other reasons also. They replace antiquated highways that now have heavy traffic volumes and are very hazardous to the health and safety of the traveling public. We have a very important stake in these roads. They mean a great deal to our citizens. We can't afford to abruptly stop a public works effort such as this that has been in the development stage for some 20 years. It has so positively affected so many people. We have a great deal that is yet to be done.

As I stated earlier, Alabama does not stand alone in this situation. The points that I made regarding corridor X and corridor V can be stated for corridors in all the remaining States in the Appalachian region. Transportation programs benefit everyone, and we believe that the good works accomplished in Appalachia over 20 years have been very successful.

I believe the focus of H.R. 10 can be found in section 205 of this document which establishes the maximum funding limitations of each of the fiscal years between 1986 and 1992. These funding requirements, as referenced in section 205(a), would establish a minimum corridor program of $220 million in 1986, rising upward to $362 million in 1992, with a total corridor funding level of $1.994 billion.

The sum of $48 million of Appalachian access road funds would be provided as the total during the first 4 years of the Finish-Up

Program, and a $2 million-per-year administration cost, totaling $14 million for the time period, would result in a total Finish-Up Program under H.R. 10 of $2.056 billion. This would include a total Finish-Up Program of 2,891.5 miles of road, including 414 miles that are now deemed adequate.

Also included in the total mileage figure of 2,891 miles is the value of 147 miles which represents commitments from six States that they will complete mileage of this magnitude with other than ARC funds.

Section 205(b) addresses the subject of conversion of prefinanced projects to a fully funded Federal aid project. This provision is a most important technical amendment that has plagued our day-to-day operations for several years. In the present situation, we can fund a completely new project at 80 percent, but if we prefinance a project then convert it to a fully funded project, we receive only 70 percent. That does nothing to encourage a prefinancing program. Section 205(b) straightens this problem out and would allow 80 percent Federal participation in all such situations.

We feel that the record now makes clear the basic importance of the highways to economic development in Appalachia. Even though the full system is now slightly more than half complete, the Appalachian Development Highway System impacts are already considerable. Industries and business have grown along the highways, and enterprises not directly along the highways were strengthened by the dramatic openings of the region by the highway system. The Appalachian Development Highway System is a vital link in moving Appalachian coal to domestic and foreign markets, and the cost and difficulty of extending health, education, and other services to the region which were reduced by the highway.

Approximately 79 percent of the revised highway system has been contracted for construction. In addition to the $2.9 billion in ARC funds obligated, the States have spent an additional $1.6 billion in matching funds for the system. This represents a substantial commitment from the States.

In Alabama, we feel strongly that if your time and money are involved in a work effort, that it makes you much more committed to the task. We are asking that you allow us to compete another 25 percent of this originally planned system through these next seven years in order that this most important area reach its potential for becoming involved in the mainstream of America's economic development.

Of course, this program has enabled many things to develop throughout the region. It's been a real godsend to the State of Alabama, as I know it has been to other regions. I know historically it's been stated that the biggest obstacle in western movement in the history of this country was the Appalachian Mountains. This was the greatest obstacle to overcome before our forefathers could move westward and we could bring about westward development.

Of course, in this process, the Appalachian region was overlooked. About 10 percent, or a little bit less than 10 percent, of our population still remains in this region today, and it's a region that's very difficult to develop and one in which the people have a difficult time participating in the mainstream of American life. So we feel that this program is very important and one that should at least be given this final boost in order that this region can develop maybe in the future on the same scale as the nation by the national guidelines. But at this point we need this additional input.

Thank you very much, Mr. Chairman.

Mr. NOWAK. Thank you. You make mention in your statement of the finish-up job that's out there. I wonder if you could give us any indication of the kinds of cost increases you receive from year to year and what you could anticipate in both the construction costs for a highway now and also in terms of its material cost for a highway.

Mr. BASS. In terms of material increases, material cost increase?

Mr. NOWAK. Yes.

Mr. BASS. Well, I think the highway industry as a whole has been a little bit above your consumer cost rise. At the present time, it's in the neighborhood of 4 to 5 percent, 4 to 5 percent annually, where I think the national rise in cost is a little bit less than that. Now, in the past it's been much greater.

Mr. ESPY. Mr. Chairman, may I answer that?

Mr. NOWAK. Sure, Mr. Espy.

Mr. ESPY. The price trends from the Federal Highway Administration indicate that since the base year of 1977, construction costs are up about 155 percent of what they were in 1977. This would pretty well agree with what Mr. Bass said as far as prices continuing to go up. That would be also consistent with what Mr. Moravitz mentioned a few minutes ago in response to Mr. Boehlert on the reason for the differences in the $2.056 billion and the $1.9 billion that was brought up yesterday, I believe.

Mr. NOWAK. You referred in your testimony to the use of loans—allocations between States. Could you describe how that has worked within the region?

Mr. ESPY. Alabama has not been one of the States to use the loans. Again I think Mr. Moravitz' testimony a few minutes ago, about the three States that have been involved, would address that point.

We have been deeply involved in the prefinancing program, Mr. Chairman, and the formula for distribution of the Appalachian money to the several States has been in the form of a two-tier formula whereby 70 percent comes to us directly and 30 percent is capable of being returned to some other State we do not use it.

It's an instrument of the Commission to keep the money going, to keep it moving, to make sure that the money you give us is put to use right away. And Alabama uses that preconstruction prefinancing program to make sure that we use that full 30 percent, that we make the best use of it in Alabama, and that we don't allow any to come back to another State.

Alabama uses it on a small scale. Kentucky and some of the other States that get a lot of apportionment of Appalachian funds use it a great deal. It's a real effective program in a number of States.

Mr. NOWAK. That's been helpful. In your testimony you mention the new industrial areas along the river from Huntsville and Scottsboro, is it, and Chattanooga?

Mr. BASS. Yes.

Mr. NOWAK. What type of industries relocated there? Were they "new" industries or were they relocated from the general area?

Mr. BASS. Well, of course, they were new industries. There were very few relocations. We have the nuclear plant that has been built just north of Scottsboro. We have one—we have a tire plant that has been built in the Scottsboro area.

And of course, the entire Huntsville area contains extensive diversified high-tech industry in the Huntsville industrial park area. This is directly related to the Redstone Arsenal and other industries that have located in that particular vicinity. We have papermills and, you know, mills related to the paper industry. Monsanto has several developments, factories in that particular area.

Mr. NOWAK. Thank you.

Mr. Boehlert:

Mr. BOEHLERT. Mr. Bass, I want to thank you for a very comprehensive statement. And also, thank you for something else. You have saved me from a potential moment of minor embarrassment because until I heard you testify, I was about to apologize to Mr. Wenger for mispronouncing "Appalachia," but now I have discovered that Alabamians, like New Yorkers, say "Appalachia." [Laughter.]

Mr. BASS. We talk a lot alike. [Laughter.]

Mr. BOEHLERT. I know. Sometimes I begin to think we think a lot alike. [Laughter.]

Mr. BASS. I think we do, too.

Mr. BOEHLERT. And I want to assure you this is one new member on this side of the chairman's side who is very supportive of ARC.

Mr. BASS. Thank you, sir.

Mr. BOEHLERT. I look forward to working constructively to guarantee its continued existence.

Let me ask you this. What do you say to rebut the arguments of those who tell us, "Why do we need the ARC Highway Program? We just increased the gasoline tax. Bass and his counterparts all over the country are getting a lot more money. Why don't they finish up the program with that money?"

Mr. BASS. Well, of course, I think the Appalachian region is a little bit peculiar in the fact that you not only have a rugged and very difficult terrain in which to bring about improvements, but you have a high percentage or high number of the population, the Nation's overall population, that live within this region. This represents a lot of labor and brain power that should be more adequately developed and utilized to a greater extent toward the development of our national wealth.

I think through the development of highways that we will be able to bring this type improvement about. You're talking about some 20 million people, I believe it is, that live within this region that are drains, or could be potential drains, on the country, whereby with the underpinning or with the development of access to these regions, they could be turned into very productive areas, to revenue-producing areas and into areas that could be an asset to the country rather than was a drain.

I think that we need to give this region that kind of a boost. Just like in Alabama, when we talk about the high cost of building a highway in the Appalachian region versus the other areas of the

State of Alabama, we see very readily that we can bring about development in your lower lands, the less rugged terrain more quickly and see quicker results.

Yet at the same time we have people that are in those areas that could be utilized. They're not going to leave. You just about have to bring it to them. That's why they're there in the first place. They like to look at those hills and live in those hills, and they're going to be there regardless of their status in the overall community.

Mr. BOEHLERT. Provide me a measure of comfort if you can. I hope those new industries you're talking about are not transplanted industries from New York or Pennsylvania or elsewhere.

Mr. BASS. I hope not. [Laughter.]

Mr. BOEHLERT. Thank you very much.

Mr. BASS. Yes, sir.

Mr. BOEHLERT. No further questions, Mr. Chairman.

Mr. NOWAK. We want to thank you for taking the time. I think you have presented an excellent statement on behalf of all the highway people in the region, and we will certainly consider it and look at especially that prefinancing which I think is very important to all the States. Because if we're to get this process going, it's going to be greatly aided through the access of the highway program. So thank you again for your splendid testimony.

Mr. BASS. Thank you, sir.

Mr. NOWAK. Our next witnesses will appear as a panel. We have two former cochairmen of the Appalachian Regional Commission: Mr. Albert P. Smith, who is a former Federal cochairman under the Carter administration; and Mr. Donald W. Whitehead, who was the Federal cochairman under the Nixon administration and is now a practicing attorney here in Washington, DC.

Gentlemen, if you will come to the table, we will receive your testimony. What we would hope to do is to take both of your statements and then ask you any pertinent questions at the end of that time.

So whichever would like to proceed, I will let you flip the coin and go right ahead.

Mr. SMITH. Mr. Chairman, I will go first.

TESTIMONY OF ALBERT P. SMITH, FORMER FEDERAL COCHAIRMAN, APPALACHIAN REGIONAL COMMISSION, AND DONALD W. WHITEHEAD, FORMER FEDERAL COCHAIRMAN, APPALACHIAN REGIONAL COMMISSION

Mr. SMITH. Mr. Chairman, and distinguished members of the committee, I am Al Smith, and I thank you for the privilege of testifying on H.R. 10, the National Development Investment Act of 1985, especially as it pertains to the Appalachian Regional Commission, on which I had the honor of serving as Federal Cochairman from January 1980 until October 1982.

For nearly 30 years I have edited, published, and owned weekly newspapers in rural Kentucky counties. Most of my time was spent in western Kentucky in the non-Appalachian section of the State, in Russellville, on the Tennessee border north of Nashville, where our county seat papers promoted efforts to create new jobs to supplement the income from a farm-based economy that could no longer provide employment for the young people of our communities.

Although I was reared on a farm, I began my newspaper career in New Orleans, where I worked for 10 years on the daily papers until a drinking problem sent me back like Robert Frost's hired hand to the country where I came from, to home, which you will recall Frost said is "the place where when you go there, they have to take you in."

After I sobered up in Russellville, a town of 5,000 people, I found a new world, personally and professionally, in the practice of journalism which dealt with the realities and aspirations of life at the grassroots of this great country, the grassroots where my life had been saved.

Of course, what our people wanted, Mr. Chairman, was not all that different from the dreams of the folks in New Orleans and Nashville or New York and Pittsburgh. But in our southern small-town way we knew that our problems were a little different. We were rural America, and economically we were out of the mainstream.

We didn't have the words for it that we hear today: Technological changes, international and national market forces, inappropriate responses to fluctuations in the business cycle. But we knew that we were paying for two cataclysmic events of our past, the Civil War and the Great Depression. And the price we were paying, the darkest pain of our poverty, was this: We couldn't keep our kids at home, there was no work for them.

In western Kentucky, where we have flat fertile land for crops and livestock and where it now seems to me from my present perspective as a citizen and businessman in the mountains of eastern Kentucky where I now live, we had so much more access in western Kentucky to schools, to doctors, to the cities and centers of commerce and communication in western Kentucky. And there is where some of our small towns made the leap from the garden to the machine and were able to diversify. This initiative was local, but the tools we employed were new economic aid programs generated by Presidents Kennedy, Johnson, and Nixon. Today, the Director of the Office of Management and Budget calls this "smokestack-chasing," Mr. Chairman. But what we thought we were doing 25 years ago was community building through resource development. Some of our farmland was transformed into factories and shopping centers, and still more was urbanized as we were able to install the utilities for homes and reverse the tide that was taking our children to northern cities in search of work.

Twenty years later, when President Carter asked me to chair the Appalachian Regional Commission, I went to my old friend Harry Caudill, whose eloquent writings on Appalachia's plight helped stir the conscience of this country, and I apologized to him that the White House was selecting a flatlander to try to cope with the problems of the mountains—typical government: If you want to solve a mountain problem in Kentucky's Kentucky, go get a guy from the flatlands and send him to the hills.

Well, "That's all right, Al," Caudill reassured me, "you've had the rural experience, and that's what counts."

Well, in the Federal service that was to follow, Mr. Chairman, I became convinced that the Appalachian Regional Commission was a unique and valuable agency to help rural Americans overcome the handicaps of geography, isolation, exploitation, and neglect.

In my travels across the region, over and over I encountered people in hamlets and hollows, in small towns and coal camps, who wanted work, self-respect, a chance for their children, a piece of the same American dream that we had in Russellville.

Despite the complaints against the ARC, with which this committee is familiar, I did not find a county judge, a mayor, a school superintendent, a health nurse, or a coal miner willing to turn back 1 mile of road, 1 foot of pipe, or surrender a single classroom or clinic to bureaucrats and Congressmen and Governors—and, yes, to politicians, who put them there.

Upon my return to Kentucky, I decided to commit the resources of our small newspaper company, which had been built as the economy grew in rural western Kentucky, to put those resources to work to my conviction that Appalachia does have a future. We bought a paper at London in Laurel County in the Cumberland foothills between Lexington and Knoxville. Leaving others in charge of our papers in west Kentucky, my wife and I pulled up stakes and, with our young child, moved to London. We put not only our money, but our lives, where our mouth had been.

With flat developable land for diversification, London is an ARC growth center. Its employment rate is high. Its population growth rate has been phenomenal, 42 percent in the past decade. At the intersection of north-south Interstate 75 and east-west U.S. Highway 80, its ARC-assisted roads provide access for employment in the London area to hundreds of citizens from neighboring Appalachian counties which are not so fortunate.

ARC water and sewer lines, industrial parks and access roads, our vocational school, airport, hospitals, and libraries serve a manufacturing complex that cushions us against the ups and downs of the coal economy. We do mine, and we ship coal. But we also farm and we process and distribute food products, textiles and wood products, and employ nearly a thousand people in data processing and Appalachian computer services, privately owned by local people who have proved that you can bring high tech to the hills.

Two points about this rosy picture, Mr. Chairman. We provide jobs for neighboring counties who are desperately in need of them, and we are the beneficiaries of some $4 million in direct ARC investments in our infrastructure.

Although our fifth congressional district, where I now live, is neighboring to Mr. Perkins' district, and is staunchly Republican, and our people overwhelmingly voted for President Reagan, they are also understandably very supportive of the ARC, which was coauthored in the Congress by the venerable John Sherman Cooper, then a Republican U.S. Senator from our district. This district, which has not a single metropolitan city in it, is also at the very bottom of the Nation in literacy. Fewer of our people in the work force, fewer of them, are high school graduates than in any other congressional district in the country.

In reviewing the arguments of the present administration against the ARC, Mr. Chairman, I realized that the larger argument is for reducing Federal economic development programs for rural America or shifting much of the responsibility back to the States, and that a still larger philosophical objective is to dismantle many Federal domestic programs—period—that the administration's ax is aimed at urban aid as well as rural.

Obviously, sir, my bias is in behalf of those investments of tax dollars that stimulate creation of jobs in all areas of our country. I am persuaded, sir, that the present commitment to increasing the defense budget—which whatever our legitimate military needs, is also a jobmaking enterprise in which Appalachia has little share—that this has produced before this committee, no matter how well meaning, testimony against the ARC that misrepresents the unmet needs of the people in the region and the goals and processes of the program.

I respectfully urge you to restrain the administration's attack on all rural programs, applying what you know so well of the true history of investments in capital resources in rural America as a test of the rhetoric that now claims Washington's work is done in assisting the one-fourth of our population who do not live in cities.

I will be happy to answer questions on these topics, especially, sir, the work of the ARC as I have observed it in and outside the Government.

Mr. Nowak. Before the questions, we will hear from Mr. Whitehead.

Mr. Whitehead. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before you this morning. First a word, as my children would say, on where I am coming from in making this statement. I came to Washington to join the staff of the Appalachian Regional Commission from Boston, MA. That's a long way from Appalachia in many ways.

Second, I came to the Commission as a Republican, a working Republican. My wife and I had spent over 15 years in party ranks addressing the envelopes, making the telephone calls, standing at the polls or recruiting and supervising those who did. We believed in the Republican Party and its principles.

I came, third, as an initial skeptic. I was perfectly prepared to believe that the Commission was a wasteful, inefficient, unneeded slush fund of some sort, providing special privilege for a certain part of the country.

After 6 or 7 years of association with the Appalachian Regional Commission, I completely changed my mind. I had 1 year of service as general counsel and 6-plus years as Federal cochairman. You might ask, given the background I have outlined, why I ever came to the Commission in the first instance. I had managed the Nixon campaign in the mid-Atlantic States in 1968, having taken a leave of absence from my law firm in Boston, promising my partner that I would not seek an appointment for at least a year after the election was over if that effort were successful.

I happened to run into then-congressman Brad Morse from Lowell on the street one day, and he asked me if I wasn't going to seek some sort of a Federal appointment. I told him about the commitment, and he said, "Well, the year is almost up, and they're looking for a general counsel at the New England Regional Commission."

I said, "What's a regional commission?" Brad said, "I don't know, but why don't you find out and see if it interests you." So I called a friend of mine who I recalled had gone to work for something called the Appalachian Regional Commission. I called him to find out what sort of an agency this was, what sort of a task it might have undertaken.

He said, "Well, if you're interested in a regional commission, you ought to be interested in Appalachia because we have a budget many times that of the New England Regional Commission and we are an independent agency and they're part of the hierarchy of the Department of Commerce."

So out of that conversation eventually came some interviews and I received the appointment as general counsel. Now, why did I change my mind after coming to the Commission without a commitment to the agency and for really the only purpose I wanted to be identified with; a new Republican administration that I thought was going to do exciting things in Washington?

Well, the first thing that I noticed was that the Commission had a surprisingly responsive staff. When people from the States or the localities came in with a problem to discuss about a project, they didn't meet hostility, they didn't meet indifference, they met a very cooperative staff anxious to find some way to solve the problem.

I soon learned that perhaps the reason for that was half their salary was paid by the State members of the Commission. It struck me as an intriguing notion and a way to solve the kind of problem that I, as a private attorney, had frequently encountered in trying to deal with unresponsive governmental staff.

I noticed also that the staff was very small. I think that when I came to the Commission there were less than 150 employees handling an appropriation of over $300 million. I believe that that represented the lowest percentage of administrative cost to program dollar anywhere in town. And I learned that the principal reasons for this was the ability of the Commission to piggyback Federal and State programs and get a lot of work done that was paid by others. Again, I thought, a very intriguing notion and a nice way to run the outfit.

Third, I was struck quite forcibly by the growth center strategy under which the Commission was making its basic investments. This made it very difficult because it meant, frankly, making investments, heavy investments, in communities that were better off than communities that were more needful.

But just as Mr. Smith has outlined the case for London, Kentucky, you will see the advisability of making your investment in a community like that which has the greatest potential for future growth than simply putting the money where the need is great but where you may never receive the payoff for that dollar.

As a conservative, I thought that was a sensible strategy. I learned from that that I was not engaged in a poverty program. In reviewing the history, the legislative history of the Commission, I noted that the Commission and OEO had begun at the same time. As a matter of fact, initially they were part of the same legislation, but very deliberately, very consciously, very purposely they had been separated because they had two different missions. That of

OEO was to deal with poverty, and that of ARC was to promote development. And from that come a lot of consequences.

I was struck by the fact that although there was input from the technical side, the basic decisionmaking process favored the politician, the officeholder over the technocrat or the bureaucrat, favored the person who had to go back to a constituency and defend his actions.

I was impressed by the fact that the local development district mechanism provided input and involvement for the ordinary citizen, just as it provided opportunity for the private sector employer to make an input in the decisionmaking process.

I was impressed by the comprehensiveness of the ARC Program. It was not narrowly targeted to chasing smokestacks; it was undertaking the unglamorous, the hard, pedestrian nitty-gritty work of providing the foundation under which growth would occur and which would attract the most productive employers.

It struck me right away that staff considered grant applications as opportunities to make investment, capital investment of the taxpayers' money. I was impressed with the flexibility of the program, its sensitivity to local conditions, and the opportunity that the process gave for the recognition of differences in one part of the region to another rather than having some edict drafted in Washington come down from on high to apply to all.

Eventually, it dawned on me that all of these conditions stemmed from the partnership nature of the Commission. The critical importance of that structure was not at first evident to me, but eventually I realized that the heart of the Commission and, I believe the reason for its success, was the partnership structure, which provides both a mechanism and a process for shared responsibility between the respective levels of Government. It therefore shifts power from Washington to the States and local communities while preserving a national perspective. It operates by negotiation and compromise at the Commission table in an attempt to arrive at a consensus rather than by arbitrary fiat declared by a Federal official.

In discussing this with a colleague in another development agency one time, he said, when we consult with the States, we consult with them very seriously and then when the discussion is over, we retire and make a decision. Well, at the Commission the decision is made jointly with State interests and Federal interests coming to grips with one another face to face.

Republicans have long sought a way to reverse the flow of power to central Government in Washington, where the rhetoric is "So-called faceless bureaucrats and technocrats make decisions based on their perceptions of the overall good, perceptions which may or may not make sense in the drastically differing localities where they are applied."

ARC is the embodiment of an attempt to reverse this flow in a sensible, rational, and orderly fashion.

ARC was created as an experiment, a national laboratory to develop a new way to conduct the public business. By all accounts, that experience has been successful. I have heard county judges, Commissioners, mayors, Governors, Senators, Congressmen, all comment on the positive impact the Commission has made. I have heard many of them say it's the best program, governmental program, they have ever dealt with.

Rather than discuss termination of the program, I think we should be considering ways to enhance its development and expand it to other parts of the Nation, using it as a model for a revitalized Federalism.

The Reagan administration is working hard to strike a new balance between Federal and State interests. I salute the effort to strengthen State capacity and State responsibility in the Federal system. But I submit that to make lasting enhancement of the State role requires more than shifting financial burdens to the States. The cut made today may be restored next year or by the next Congress. For permanent change to take place in the Federal-State relationship, I submit the States ought to have a forum, a mechanism, a structure, a process with which to meet Federal officials face to face more as equals than as hat-in-hand supplicants.

The ARC partnership provides that forum and therefore provides the best way I know to manage change, because in the last analysis that's what we're talking about, the management of change, which to be equitable, to be realistic, and to be permanent must involve all the interests which make up this republic.

So, Mr. Chairman, starting as a skeptic, I became persuaded that ARC represents an important advance in Government's ability to deal with public problems. I came to see that the ARC structure embodied principles I believed in: the businesslike pursuit of specific measurable goals representing desired change in a way that brings Government closer to the people, those who are affected by those decisions and those who pay its bills.

Thank you very much.

Mr. NOWAK. Thank you very much, Mr. Whitehead.

And thank you, Mr. Smith. I think both statements were very clear and certainly perceptive and useful to the committee. Your backgrounds and experience lends a great deal to these committee hearings.

Let me go back and ask a couple of questions that you have touched on in regard to this program and the general concept we have been trying to develop over the last few months in thinking about "economic development" entirely. You know, the arguments have been made we're in a budgetary situation that doesn't allow any of the domestic spending that we've enjoyed in the past.

You mentioned, Mr. Whitehead, especially in your last few statements, the reversed New Federalism that this program has probably lent itself better to over the last 20 years than any Federal Program that has been out there.

As you know, the Senate Budget Committee last week eliminated this program along with the EDA portion, I might add, eliminated it out of their budget. So we in the House, if we're going to have a program, will have to be the ones who hold tight now.

And when you talk about Federalism, the argument is always made, "Well, the States, if they're interested, can do it by themselves. Let them raise the taxes for the programs." I wonder if you could respond to that in light of your testimonies, both Mr. Smith and Mr. Whitehead.

Mr. WHITEHEAD. Yes. Well, that leaves out the Federal co-chairman and the role he plays in the Commission decisionmaking process. Certainly, the States could get together among themselves and plan cooperatively. But there is another and very important partner in the scheme of things, quite obviously, the Federal Government and all of its constituent departments and agencies whose objectives, goals, programs have to be coordinated with those of the States if we are to get the efficient use of the tax dollar. And leaving out the Federal partner would leave out the basic means of communicating with the Federal Government in a way to achieve that kind of coordination.

Mr. NOWAK. Mr. Smith.

Mr. SMITH. I think, Mr. Chairman, also, the fact is the States weren't able to do it. They had the problem for 100 years, 200 years. And we in Kentucky are looking at our tax structure, which is out of balance. We're getting about 80 percent of our general funds out of per capita income and the corporations are providing about 8 percent. Government has run like business in Kentucky really too long, and we've discovered, among other things, that we're about $200 million short of money that we need for education all over the State.

We discovered also that we really were never able to conquer the problem of feudalism, of regional jealousies, until we had some process that could bring us together. And in this process it was not only the Federal presence at the top, but it was the existence of these development districts at the bottom which became the building block for putting these projects together.

In the 25 years I have lived out there in rural Kentucky, I have seen the development districts bring rural magistrates who grew up in a rock-hauling economy, where politics was just getting the rock out to the roads and that was about the limit of perspective that a lot of those fellows had on what Government was all about. The development district has forced the local officeholder, rural officeholder, to look beyond his own hill, to look on the other side, to look across the line, if you will, at the other fellow.

They've been brought face to face with planners, and that's not a pejorative word. Those planners that we're working with are young people, many of whom grew up in the same area they're trying to help. They're the first members of their family to go to college, and they've come back right in the area where they grew up, and they are talking to the older people and saying, "You know, it can be done." And there is a whole linkage there that is working wherever there is a chance, it's working to the whole benefit of the whole region economically.

I think you just don't want, A, for the people from Washington to tell the locals what to do, and, B, you don't want to just throw the money out there without some sort of targeting of where it should go.

When Mr. Whitehead and I were Federal cochairmen—and it's still true today—you cannot write a check, the Federal cochairman can't, unless somebody ultimately down there in Clay County, KY, asks for that money, gets his neighbors in the other counties in the councils of Government to approve of the project, sends it to the Governor, argues their case with the Governor, moves it up to

Washington, and defends it in front of the staff of the Appalachian Regional Commission, persuades the Federal cochairmen it was a good idea, and then the vote comes, and then the check was written, and the Congress which appropriated the money was told what was going on.

It's an imperfect process, but it's one of the most democratic things in the long run, and one of the quickest working processes that I have ever seen. I see these complaints that Federal projects delay the success of things or the sewer plant has to wait so many years before it can be built. The truth is nothing got built until we had this program.

The idea that it's all over or that things have changed all that much, Mr. Chairman, and that we're talking about problems we had 25 years ago, we have still got those problems. We still live in an economy, as Mr. Perkins, my neighbor, on your committee, can attest, that is very much like the problem that we faced when this program was organized. 25 years is a short time, or 20 years, in terms of 200 years.

Mr. Nowak. Yes, Mr. Whitehead.

Mr. Whitehead. I think it's unrealistic to expect that the States could come together and thrash tough problems out in the way they do at the Commission without the Federal money being the objective of the whole process. For example, mention has been made this morning of the fact that originally the Highway Program affected only 10 States and there were three States that were admitted later for the Highway Program.

I remember particularly the discussion that took place when Mississippi's application for part of the highway program came before the Commission. In effect, the other States were being asked to give up a portion of their highway funds to build highways in Mississippi. They voted to do so. Why did they vote to do so? Because in the long range they thought it was going to be to their benefit. But the mere fact that they recognized that and had an opportunity to express it I think indicates the Commission is a very responsible program.

Mr. Nowak. You know, in addition to those, I think, right reasons to look at and question the administration's position is something that's come into the economy—and I am sure it was always in but not to the dramatic effect it is now—and that is our entry into the world economy and the world trade that is brought about by the many factors, the strong dollar and foreign policies that come into our trade policies that impacts on our local communities that your planner in London or your planner in Kentucky or wherever he may be is not going to have the same view and the same information that is going to be available down here in Washington.

There has to be, I think, a greater participation just because the impacts that we're now experiencing—and this holds throughout, I am sure, every county in the Nation—they're not going to be on their own, and have the resources to look at world competition and send out those kind of tentacles that are going to tell them where economies are shifting, where sectors are going to be reduced or where they're going to be increased and where opportunities, the new opportunities are going to come from, where retraining has to come into our economy, where you're going to have to reeducate, what industries are moving.

I am not only talking within our country but within this world economy, and I think that's another very important factor that we have to now consider. This process that we have, I think we backed into, and it may be much more important today than it was initially going back 20 years.

I wonder if you had a comment on that, that in your opinion could also be another reason.

Mr. SMITH. Well, the farmer is not going to come out of his problem no matter what we do until he can sell his products on the world market. I mean everything else I think turns on his ability to get back in the international market, and I think also that the quick electronic transfer of money all over the world affects all of us in both Appalachia and in non-Appalachian United States.

In Ohio, neighboring Ohio, we've had this tremendous scare which has panicked a lot of people. We went through this in Kentucky 10 years ago, and the whole problem of getting the capital available and getting the interest rates down where we can use it has got to involve the Federal Government.

There has got to be a monitoring effect and a vigilance on the part of the Federal Government which involves us internationally, which cannot help but be involved with our monetary controls, and which without vigilance is going to create or permit to be created at the grass roots an absolutely devastating depression unless we finally can come to terms with our interest problem and our dollar problem.

I cannot tell you how strongly I felt buying this newspaper in the mountains and going into debt with everything that I had earned one side of the State to get into the mountains on the other side of the State and then having the experience of carrying a $600,000 loan at 18 percent for about a year and a half. And it certainly focuses one's mind on the problem of the dollar.

Our Appalachian coal is not that valuable a resource to us right now. It is a great resource to the Nation when we get back into trouble, as we probably will. One blowup in the Middle East will make it important again, but our prosperity right now is minimal from our coal resources. You won't find any great progress that we've made in coal in the last few years, but we are proving, sir, wherever we can create a growth center and wherever we can get roads to people to get to that growth center and where at home they can have clean water to drink and a warm, dry house to live in and a school to send their kids to and get connected to television where they can see the rest of the world, we've proved that we can create a good way of life.

I went to a hollow in Clay County, KY, last year, where Rev. Dwayne Yost, a volunteer from the Church of the Brethren from the North, had stopped in Clay County, KY, on his way to Africa 25 years ago to be a missionary, and realized there was plenty of need there, and where he has run a nationally recognized Volunteer Poor People's Housing Program. He had built a house that was so cheap that the Farmers Home Administration wouldn't underwrite it. He had Farmers Home Administration water running into the house, but he didn't have any plumbing in the house other than that waterpipe, no bathroom.

And in that hollow, 25 miles from where I live, I was greeted on a Sunday—I went up to see his house; they had open house, the little house he'd built, two of them up there—I was greeted by a 14-year-old girl on a horse. She had lived in that house with her mother and brother, no father. Inside the house I saw a penant that said "Manchester High School," where her brother went to school, and his hunting rifle there in his room. Her mother worked 45 miles away in an ARC industrial park for American Greeting Cards, not dependent on coal. She commuted 80 miles a day back to that hollow on an ARC road where they had pure water brought in by this process.

And watching after those kids during the day was the old granny who had lived in the next house over without plumbing and was getting her house rehabed, and an uncle and an aunt in still one more house down the hollow.

Now, those people were following their way of life, they weren't on food stamps, they weren't on welfare. They were working and they were making it and they were willing to travel to stay in their own home and practice their culture. They didn't ask anything but the chance to work and to live together. And that to me, sir, is this process at its best.

Mr. WHITEHEAD. Mr. Chairman, probably the essence of the Federal system is the separation of powers in our Constitution between legislative, judicial, and executive and the tenth amendment to the Constitution. Those probably also represent the bulwark of our liberties. But it creates a system that is very difficult to operate harmoniously, because as all powers not specifically delegated to the Federal Government are reserved to sovereign States and as many problems entail shared responsibility in which both Federal and State governments have interests, how do you operate, how do you conceive and maintain and operate a program in health or education, transportation, communication, whatever, with both these sovereign interests without some sort of coordinating mechanism?

You asked about process. That is the essence of the ARC's function, to provide that linkage between the respective levels of Government in the Federal system.

Mr. NOWAK. Thank you very much.

Mr. Gallo.

Mr. GALLO. Thank you very much, Mr. Chairman.

I also thank the two gentlemen for their testimony. I am learning a lot about the program and also about the Appalachian areas that you refer to.

I have a couple of questions that I would like to address to Mr. Smith or Mr. Whitehead, or both if each would like to respond.

First of all, on the basis of your experience in this field, how are the States coping with the lack of authorization which would give a period of time for planning for dealing with the highway projects? Is there an adverse effect on those States because of the lack of continual planning ability?

Mr. WHITEHEAD. That's tough for either one of us to answer, because neither of us is connected with the program at the present time. I served through the Nixon and Ford years and left in 1977.

All I can say is that in general, of course, the planning process is a long-time thing. It must be increasingly difficult for the States to make plans, not knowing year to year whether the commission will continue. But aside from that general statement, that's all I could say.

Mr. SMITH. I would like to ask Mr. Moravitz. That's our executive director, sir.

Mr. MORAVITZ. The answer is, yes, there is an adverse impact. Most of the States are in a position to accelerate their construction programs. Many are in a position to float bond issues, for example, if they knew the authorization were there for future payout of the bonds themselves.

One of the best examples I can give you is that our States at the present time have prefinanced over $200 million of construction on the system in anticipation of funds that would be coming down the line. But they certainly are in a position to move forward and the lack of an authorization has hurt in that direction from their perspective.

Mr. GALLO. Mr. Chairman, if I could follow up, the ICE program, which deals with the highway funds, is that coordinated with the overall highway program?

Mr. MORAVITZ. Yes, sir. The general trust fund moneys that come into the State are in some cases commingled with our funds, and as Director Bass mentioned a few minutes ago, the States have made a $5 billion commitment to finish those portions of the system not in the Finish-Up Program that the Governors put forward. And in those instances, the States are anticipating using trust fund moneys and, in some cases, Governor Moore for example, has ventured to propose the use of toll roads, for example, to complete some of those State commitments.

Mr. GALLO. When you talk about the program itself, I look at those moneys available through the Highway Act. Can you tell me, if taking away the funding under the Commission so that the Highway Act were the only funding available, taking away the funding under the commission, would they be able to move forward?

Mr. MORAVITZ. Well, let me give you some examples. The nickel tax which was mentioned this morning provided our States with an additional $2.1 billion. Now, $1.6 billion of that was earmarked for the Interstate System. Additional, now, I am speaking without notes, about $325 million was available for the primary systems in all of those States. Now, our roads are part of the primary system and constitute approximately 5 percent of the total primary systems in the State, which would give you, if my math is right, about $17 million a year for the effort, that additional funds.

So the answer would be, sir, that it would be a much longer process, a much longer time to complete the system.

Mr. GALLO. Mr. Chairman, one further question.

As I understand H.R. 10, there is a phaseout or a discontinuance of the program by the year 1992. Can you tell me what the States are doing in anticipation of that phaseout of the program in continuing the projects? I know you mentioned a $5 billion commitment.

Mr. MORAVITZ. Yes.

Mr. Gallo. But I find also that we make a commitment of $5 billion and then some State appropriations never get around to being completed.

Mr. Moravitz. Well, to use an example, again, Kentucky last year financed $40 million of trust fund moneys and State moneys on sections not included in the finish-up road itself, so that the total system is looked on as vital by those States and they are moving forward with those segments.

New York has made—I don't have the numbers in front of me again—but New York has made a major commitment to complete those segments, and in fact may complete the segments of the system before the Finish-Up Program is completed.

Mr. Gallo. Are they doing that through individual bonding in the States?

Mr. Moravitz. Bonding, trust fund moneys, and other revenues.

Mr. Gallo. Thank you very much.

Thank you, Mr. Chairman.

Mr. Nowak. Thank you.

We will turn to Chris Perkins, from Kentucky.

Mr. Perkins. Thank you, Mr. Chairman.

I very much appreciate the statements given today. It is always a pleasure to see Al Smith.

Mr. Whitehead, I was very intrigued by your conversion to the Appalachian Regional Commission's team over a period of time.

You know, I don't know if I am really going to have a question at this time so much as a statement. If you know where I come from, if you know what Knott County, KY, is like, if you know what eastern Kentucky is like and what the Appalachian region is like, I don't really think that you can have any sort of idea about what the need for this program is.

You know, a tear came to my eye, quite frankly—I am an emotional critter—when Al was talking about going over there to Clay County. And if you understand the historical basis of watching massive outmigrations of people who wanted to work but couldn't find work and there was only one industry, the coal industry, and they just had to leave to go to Detroit and leave to go to Toledo and leave to go to wherever they could find a job up North, and you had just seen it go on for literally generations, and you're looking to try to give some sort of industry and some sort of development so people can work and stay around where they're living, that's really basically what the Appalachian Regional Commission was designed to do back in the 1960's. And that is basically what it has done, a tremendous job helping us develop in the last 20 years.

But if you know the area and if you've seen the area, you'd know we've come a ways, but you know we've got a ways to go. You know, when you see and you look around in my home county and I see the unemployment rate go up to 25 and 30 percent and in the adjoining county I see the rate go as high one time recently as 40 percent, you don't see that sort of unemployment in the rest of the country. You see it in some urban areas, but you don't see it in a region on a county-by-county basis, you don't see it in a cultural sort of civilization that is dependent upon a way of life that had just emerged from the frontier.

You know, you talk about Harry Caudill's book or books and, you know, the way he would chronicle some of those things. I always enjoyed some of the books of some of the other writers of the area that have pretty much told the story whereby that area—you have got to understand, my father who was here before me, was growing up, he rode on horseback where he was going. He rode on horseback. In fact, you still have people who have horses around and ride horseback around.

And you still don't have any idea. Let me give you an idea. We don't have a dry cleaning service in my home county. We don't have a movie theater in my home county. We finally got our first fast-food restaurant in November in my home county.

Maybe these things seem a little bit difficult for a lot of people in America to understand and grasp. We're frontier, and we've been coming out of the frontier. And to try to make that transition in a period of time, a three-generation leap in one, it's not something that's easy to do or it's not something that we can do without aid or assistance.

We're not asking for anything other than this program giving people the right to work. When you talk about that sort of thing, I guess again I just want the rest of the people and the rest of the country to realize exactly how it's like. I think if they would, you wouldn't see the Senate talking about cutting out this program, you wouldn't see the President talking about cutting out this program.

I know it's hard sometimes when you're not from the area to really understand the problems of that area, to really understand how the people feel and to see what they go through. But it is something you live with, and it is something that I suppose we have to tell people and we have to express to people if they're ever going to understand.

I would advise anybody who is interested to come to eastern Kentucky or West Virginia or southern Virginia or Tennessee to take a look and see what we've done with the Appalachian Regional Commission and take a look and see what we can do and, hopefully, will do with the Appalachian Regional Commission.

It's not going to be an easy answer. I don't know, myself, if we're going to—you're talking about 1992—I don't know if we're going to have the opportunity by 1992 to even begin again what we want to do. What we want to do is work. What we want to do is have jobs. What we want to do is have opportunities. And that is what the Appalachian Regional Commission is all about.

I don't have too many questions. I know the problems, and I know what the program has done, and I commend you gentlemen on your efforts in the past for having aided our area of the country, because it's meant a lot to a whole lot of people.

Thank you.

Mr. NOWAK. Would you like to respond, or do you have any statement.

Mr. SMITH. Mr. Chairman, I will tell you how much of a frontier Mr. Perkins represents. One of my reporters was trying to write a story about a businessman in our district who had gotten in trouble over a car sale to a fellow in his district. So we thought that the fellow in his district was trying to put the fellow in our district in jail. So we called the fellow in his district, and he said, "We got him at his house." He said, "Oh, no," he said, "that was all right. I'm not much for taking warrants." He said, "I sent my son with a pistol over to your town and told him to blow the man's brains out and bring the car back." And he said, "He's got the car back." [Laughter.]

Mr. NOWAK. Without the warrant.

Mr. SMITH. Without the warrant. So when we hear that things are all, you know, so different after 25 years, I have to disagree.

Mr. NOWAK. Well, I think it really does show the diversity of problems that we have out there. We've been trying to impress and work with the administration to try to explain that we do have not only developing problems but existing ones in Appalachia—look at Chris' district or look at some of the areas in West Virginia.

And I can go back and remember President Kennedy so eloquently describing the kinds of problems. I can remember in my own State, Senator Robert Kennedy going through and looking at the southern tier of New York State and saying, you know, there are problems, despite the great presence of New York City and the Thruway which we had at that time, and everything else running through the central northern part of the State.

And now, 20 years later, in the great industrial States where the people that Chris mentioned migrated to: Detroit, Chicago, Gary, IN, up to Buffalo, up to Rochester, we've seen a total reversal of opportunity. And it hasn't expanded anywhere in that area, and the people that had taken jobs are now finding 20 years later that those jobs are gone.

So this dynamic free-enterprise market shifts very quickly. Many times the local industries are the whole sectors—I mean no one is going to tell me to blame Bethlehem management or the employees at Bethlehem. No one is going to tell me that those managers of Bethlehem and United States Steel want to close those plants. But the fact of us competing in the world economy mandates that they close them. They are in a position that they can't compete now. And what do you do with those people?

So the people that have come up north and perhaps had that opportunity at one time, now have found another shift, and that shift, of course, has put them out of work again and into the role of trying to find another, now, service sector job and go from a middle-income category down.

For the first time in our history, whether this administration likes it or not, we have actually moved back. For the first time since the 1930's when we started to make great progress in taking more and more people out of the poverty level, the statistics are now starting to show that more people are back into the poverty level.

And you know, that whole development is a part of a world transition and more and more, I just can't help but think about those people. If we're just going to sit back and say, "Well, let the States pay unemployment compensation and let the States pick up the share of home relief," there will be so many unproductive people out there that the system is not going to be able to hold itself up. The opportunities that we tried to develop and were certainly successful over the last 50 years are going to start to be eroded.

And then you look at this kind of a program providing the flexibility of doing many things the basic educational requirements that are going to be needed to get into the new technologies.How do we provide the seed capital, not only in the major metropolitan areas, but in Kentucky, for someone to take advantage of some of the educated and skilled people there? How do you retrain these 350,000 manufacturing workers who were in your Appalachian region?

Do we say to them, "All right, you've got to shift again." You came up here 20 years ago. Now shift back again and go down someplace in Texas or California where you can find a high-tech job in the service industry? And when they do that, you also shift families and friends, and the disruptions, I think, are just tremendous in the impacts, the social impacts, and the tearing apart of families and relationships.

So again, I really do think we have a tremendous need out there, and I think this is one program that should be continued. If you look at all the different programs you can argue for and say, "Yes, you know, you can use some money on one side and get some seed capital but you can't do anything else," this one program has enough flexibility so you can go right to a community college and set up a training program if you need welders. You can put the whole complete package together using not only other Federal programs but more State programs.

Someone has argued, "Well, we have to get the private sector more involved." Nobody argues that. Let's do it. Let's bring them into the process, not have a public sector and a private sector. It's not going to work anymore. Unless you have them both working together, you're not going to be competitive in the world process, because that's what's happening to your competitors. You can argue the Japanese methods of production are great, but it's the Japanese allocation of capital that makes a big difference, too.

So there are many involvements, I think, that we have, but I don't know of any that can take an overall look, whether it's infrastructure, whether it's basic human needs, whether it's childcare, whether it's education, to get people to participate in the private enterprise market system.

So we're going to look forward to not only sustaining this program but, as I said on many occasions, to trying to bring back to this administration a broader, more flexible, more cooperative private sector and public sector to get us into this world economy so we don't have tremendous displacements in one sector or another sector without having some transitional help for those people to get them back on the employment rolls as soon as we can.

Let me just thank you for your presence here today, and we will certainly, as we develop our complete record, want to have you available to answer any further written questions. Thank you very much.

Mr. **Whitehead**. Thank you, Mr. Chairman.

Mr. **Smith**. Thank you, Mr. Chairman.

Mr. **Moravitz**. Thank you.

Mr. **Nowak**. Our last witness is Dr. Gail Schwartz from the American Planning Association. Gail is president of Garfield Schwartz Associates, Inc., a Washington consulting firm which specializes in problems caused by structural changes in the economy.

Dr. Schwartz, it's a pleasure to have you before us.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

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STATEMENT OF
GAIL GARFIELD SCHWARTZ, AICP
AMERICAN PLANNING ASSOCIATION

On Behalf Of The
AMERICAN PLANNING ASSOCIATION

Before A Hearing Of The
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

On HR 10
THE NATIONAL DEVELOPMENT INVESTMENT ACT

March 21, 1985

Mr. Chairman and distinguished members of the Subcommittee on Economic Development: I am Dr. Gail Garfield Schwartz, AICP, President of Garfield Schwartz Associates, economic and development consultants in Washington, D.C. I am Chairperson of the American Planning Association's (APA) National Policy Coordinating Committee, Chairperson of the Association's Economic Development Division and a member of the APA Board of Directors.

Based on my extensive experience in urban economic policymaking and implementation at the local, state and national levels, I am pleased to testify on behalf of the American Planning Association and the American Institute of Certified Planners (AICP) on this excellent piece of economic development legislation.

The American Planning Association is a national organization of over 21,000 city, regional and state planners as well as elected and appointed officials, educators and interested citizens. The APA membership belongs to forty-seven chapters in virtually every state and Congressional district. The American Planning Association is the result of a 1978 consolidation of the American Institute of Planners, established in 1917, and the American Society of Planning Officials, founded in 1934. Within the umbrella organization, APA, is the American Institute of Certified Planners, which focuses on professional development and whose members are distinguished by having passed an examination of planning principles and practice. The Association's primary objective is to advance the "art and science" of planning for the improved development of communities, cities, regions, states and the nation.

We support the National Development Investment Act, HR 10, because it takes a great leap forward in the process of defining a national economic development strategy. It recognizes that the criterion of poverty is not in and of itself a sufficient basis on which to entitle communities to long-term Federal economic development assistance. In fact, the bill includes other criteria that are essential to successful economic development, most notably consistency and coordination with state and local goals and the promotion of private sector employment opportunities which will support an overall self-sustained and strengthened economic and business environment. As planners, we wholeheartedly support the rationale in the bill that economic development assistance will be cost-effective for the Federal government only if there is a long-term local economic development strategy which that assistance will support.

If I may speak first to the general issues and then to the specifics, my first point is that this bill goes a long way towards the rethinking of the Federal role in economic development that is essential to the future economic stability of the nation as a whole. This whole is, after all, but the sum of the parts--and the parts that are economically self-sufficient communities. This bill clearly states that the Federal government has a responsibility to assist communities to achieve economic self-sufficiency, and that business and government in those communities have an equal responsibility.

The American Planning Association expressed the same philosophy in its Economic Development policy statement when it noted:

> Government efforts should be designed to encourage and facilitate private capital investment, provide needed employment and human development opportunities, offer services, and contribute wherever possible to orderly community growth, development, and environmental excellence.

As you know, Mr. Chairman, the American Planning Association's members represent every level of government and the private sector as well. Our membership is well-versed in the complexities of designing and implementing economic development and adjustment strategies. This is a long-term proposition, demanding daily efforts to negotiate, and requiring that firm commitments be secured in advance from all key parties--several levels of government, banks, investors, landowners and businessmen. Therefore, we commend the recognition that this bill gives to strategic planning by requiring, in Section 106, a Development Investment Strategy. Not only does the bill mandate such planning, but it provides funds to support it. Seventy-five million dollars per year earmarked for economic development planning will enable many distressed communities, which otherwise could not afford it, to analyze their economic potential and inventory their existing public and private resources of land, labor, capital, public services and entrepreneurship. Moreover, this bill would provide the funds which will allow communities to plan to alleviate their economic development problems. We also commend the authors of this bill, Mr. Oberstar and Mr. Clinger, for requiring the grantees to coordinate their plans with those of the state's. These required elements of the Development Investment Strategy are certainly the basic components for integrating projects or activities funded by the Federal government with the grantee's long-range, comprehensive plan to gain economic self-sufficiency.

As planners, we applaud in particular the requirements in Section 106 for a Development Investment Strategy and the recognition in Section 201 that economic development planning must be a part of a comprehensive planning process and "shall be a continuous process involving public officials and private citizens in analyzing local economies, defining development goals, determining project opportunities, and formulating and implementing a development program."

The American Planning Association also endorses enthusiastically what might be termed the "policy breakthrough" in this Act: the abandonment of the "worst is first" approach to economic development. While a community must be distressed--that is, have low income, high unemployment, or suffered a sudden economic dislocation--to qualify for assistance, all such communities will not automatically qualify. The government--and therefore the taxpayers--will be looking properly for a return on investment which is called for in Section 106(a)(5). Again, this concept is fully endorsed by our Association, which stated in its Economic Development Policy that efficiency should be given equal importance to equity. To evaluate proposed Federally funded projects on the basis of their contribution to a solution of an area's economic problems, as this Act proposes, is to introduce the measure of efficiency. This is a welcomed change from the Public Works and Economic Development Act of 1965, as amended, which qualified the vast majority of the nation's communities and which made few demands on the beneficiaries of Federal economic development assistance.

The National Development Investment Act not only expresses a bold new approach to economic development policy, but it gives teeth to it by changing the Federal share of project cost from seventy-five percent to fifty-percent. This places an appropriate burden on communities to demonstrate that they have the will and the wherewithal to help themselves. It challenges states to deal directly with local economic problems. It avoids the temptation that in many cases is almost irresistible, to take Federal monies to prop up dying organizations, which only stretches out the hardship period and postpones the inevitable.

In light of the Federal budget limitations, we also want to go on record in support of the revolving loan fund established under Section 107, "Private Sector Incentives." Such a fund would be well worth the investment by improving the local tax base, providing and retaining jobs.

Finally, we commend the shift in emphasis from building for the sake of building, to the emphasis on laying a base for economic development. The National Development Investment Act does this in two ways:

- By continuing the Federal government's vital role in financing roads, bridges, sewers, waterways and water systems and other infrastructures; and
- By allowing an eligible locality to build on existing infrastructure by encouraging the formation of a capital pool for start-up firms.

This marriage of program activities will allow distressed communities that already have sufficient infrastructure to make good use of it. It will relieve them from the necessity to "chase smokestacks," to find outside firms to relocate in their communities--usually an expensive and fruitless task. Instead, they can encourage local business persons to start services or manufacturing shops that will create new jobs and promote self-sufficiency.

Although the option of using Federal assistance to start a revolving loan fund, with a fifty-percent local match, is desirable, it is our judgment that most communities seeking aid under this new Act will likely use it for infrastructure. The infrastructure problem is high on the list of APA's state and large city members. I am personally working with states deeply worried about their ability to provide funding needed in future years. As the members of this

Subcommittee well know from the Public Works Improvement Act of 1984, which APA supported, the backlog of need to maintain and repair the nation's infrastructure is in the billions of dollars. While that Act requires documentation of the need for capital improvements, HR 10 takes an important step toward meeting our capital needs by authorizing $425 million a year for such improvements.

One of the chief accomplishments of the National Development Investment Act would be to assist communities to ward off disaster by shoring up bridges or tunnels, cleaning up the water supply, or building new sewer systems. Moreover, the fifty-percent match requirement will help take this new public capital investment program beyond the "pork barrel"--as does the limitation on total expenditure allowed per state to fifteen-percent of total appropriations.

In sum, the American Planning Association supports the continuation of the Federal commitment to infrastructure investment. We favor the "new look" that places more responsibility on state, county and municipal governments and on the local business community. We strongly support the requirement for long-range planning and the funding for it. We feel that this bill reflects the needs of the times, in that it recognizes that very scarce resources have to be allocated to economically distressed areas on a basis that will get the most "bang for the buck." The competition for selection that will be induced among the nation's communities should, in our judgment, sharpen decisionmaking in all communities. In addition, the uniform measurement of local contribution as a share of total funding will mitigate against discriminatory selection.

While Congress is in the throes of debating deficit reductions, we wish to go on record, as we have in the past, in opposition of elimination of the Economic Development Administration and the Appalachian Regional Commission which have proven their effectiveness.

Let me end my testimony by thanking the Chairman and the Subcommittee for this opportunity to comment on this much-needed legislation. The American Planning Association will be pleased to assist the committee in any way as it pursues its public review of the National Development Investment Act.

Mr. **Nowak**. Please proceed.

TESTIMONY OF DR. GAIL GARFIELD SCHWARTZ, AICP, AMERICAN PLANNING ASSOCIATION, AND PRESIDENT, GARFIELD SCHWARTZ ASSOCIATES

Dr. **Schwartz**. Thank you, Mr. Chairman. I am very pleased and honored to have an opportunity to testify on this very important bill.

I am very sorry that Congressman Oberstar had to leave because I wanted him to hear me say that I am now measuring my age by how many times I have testified on this piece of legislation. I had the honor of testifying on the need for it 5 years ago. Three years ago I testified on what an excellent bill it was. And now here I am once again, and although I am a subscriber to the Emersonian notion that a foolish consistency is the hobgoblin of little minds, I am afraid that I am going to repeat myself and say the same laudatory things about the bill that I said the last time.

Let me move into this by picking up on what the two previous witnesses have said and say that both as a representative of the American Planning Association, which as you know is an organization that represents over 21,000 city, regional, and State planners, elected officials, educators, and interested citizens, and as a person who has spent her entire career in economic development and policy making and implementation at the State, local, and national levels, we heartily endorse the continuation of the Appalachian Regional Commission as well as of the Economic Development Administration.

I have been working this past year in West Virginia, and I have been up those hollows, and I know what situation they're in, and I know how devastating it is to be locked into a place which doesn't have a road, doesn't have a sewer. You can smell it on a hot summer night 15 or so miles away. That program must be continued.

I have also worked in Pennsylvania. I have also worked in New Jersey. I have also worked in New York. And I have seen these problems at the local level solved by small infusions of money in ways that could not possibly be done without the Federal Government's assistance.

There are a few things about H.R. 10 itself, however, that have broader implications that the American Planning Association would like to emphasize. I think the most important thing is that since the Planning Association's primary objective is to advance what you might call the art and science of planning, this bill will enable that to be done in a way that has never been emphasized to this extent in the past.

It takes a great leap forward in the process of defining a national economic development strategy, and it recognizes that poverty in and of itself is not a sufficient basis on which to entitle communities to long-term Federal economic development assistance. Other criteria which are really essential to successful economic development are included in this bill, and they are: consistency and coordination with State and local goals and the promotion of private sector employment opportunities that will support an overall self-sustained and strengthened economic and business environment.

This bill clearly states that the Federal Government has a responsibility to assist communities to achieve economic self-sufficiency and that business and government in those communities have an equal responsibility.

This is reflected almost word for word in the American Planning Association's own economic development policy statement.

The Planning Association's membership is probably more versed than any other professional group in the Nation in the complexities of making this kind of coordination and design work out. We know that it's a long-term proposition. We know that it requires almost daily negotiating among many diverse interests and bringing together in a fashion that permits a true commitment, several levels of government, banks, investors, land owners, businessmen, and community representatives.

So we commend the recognition in this bill of strategic planning's necessity and, moreover, of the funds to support it. The $75 million a year which are earmarked for economic development planning will enable many distressed communities which otherwise could never afford to plan, to analyze their economic potential, to inventory their existing resources, and to develop a strategic plan for their own futures.

We also commend the authors of the bill, Mr. Oberstar and Mr. Clinger, for requiring that the grantees coordinate their plans with those of the States. Too often in the past, such coordination has not existed. Local governments have proceeded with their own comprehensive economic development plans, but the States have not been involved with them and they were both working at cross purposes without any integration of their objectives or of their expenditures.

The American Planning Association also endorses enthusiastically what I have called the "policy breakthrough" of this act, the abandonment of "the worst is first approach" to economic development. The Federal Government, with the enactment of this bill, will be looking, and properly so, for a return on its investment.

And after all, its investment is our investment. We are the taxpayers and we are the ones who are putting money into these distressed communities.

This is a welcome change from the Public Works and Development Act of 1965, as amended, which ultimately qualified the very vast majority of the Nation's communities for Federal assistance and made very few demands on the beneficiaries of such aid.

The National Development Investment Act not only expresses a bold new approach to economic policy, but it gives teeth to it by changing the Federal share of project financing from 75 percent to 50 percent.

While some may think that the Federal Government is abrogating its responsibilities, we believe that it places an appropriate burden on communities, and the States of which they are a part, to deal directly with their own problems and to develop their wherewithal locally to help themselves. And it avoids the temptation that too often in the past has shown up in failed projects, empty industrial parks, and struggling marginal businesses, to take Federal money to prop up dying organizations which only stretches out the hardship period and postpones the inevitable.

We commend, too, the emphasis on laying a base for economic development in two ways; one, of course, by continuing the Federal Government's vital role in the creation and provision of infrastructure, but, two, by allowing an eligible locality that already has the infrastructure to build upon it and to make sure that it's utilized to its full extent by encouraging the formation of a capital pool for startup firms.

It's our judgment that most communities seeking aid under this new act will likely use the money for infrastructure. And I can tell you that my experience is that it will probably be used primarily by most communities for filling the potholes that break the axles of the visiting consultants that are trying to get around their States. This is a widespread problem, the extent of which is probably not even known.

Working with State agencies deeply worried about their ability to provide funding needed in future years convinces me that few will use this program for loans to business. However, if other cutbacks that the Reagan administration is proposing—including Community Development Block Grant funds, which are now used in some States for revolving loans or low-cost loans to businesses—materialize, then perhaps this new fund could serve as a substitute for those moneys.

The 50-percent match requirement will also help take this new public capital investment program beyond the pork barrel, as does the limitation on total expenditure allowed per State, the 15 percent of total appropriations. And we the Planning Association heartily endorse those provisions as well.

In sum, the American Planning Association feels this bill reflects the needs of the times, in that it recognizes that very scarce resources have to be allocated to economically distressed areas on the basis that will get the most "bang for the buck."

I think, Mr. Chairman, I will end my testimony here. Thank you for the opportunity to comment on this much needed legislation, and I will be pleased to respond to any questions you might have.

Mr. NOWAK. Gail, thank you very much. Let me just ask you two brief questions that perhaps you could have substantial input in. The cap of $2 million on assistance under the bill and $1 million for the revolving loan fund, some have said, would be too restrictive to some communities or hinder the most effective use of the funds.

I wonder if you had experience in this area and have an opinion on that.

Dr. SCHWARTZ. I don't think it will limit the effectiveness. Unfortunately, there isn't enough money to go around and to give every community as much as it might be able to use. But there are so many communities that need this assistance, and the assistance itself, by being available on a matching basis, will encourage local capacity building and develop local capability. So that I feel that spreading it further is more important than creating very large projects in a very few communities. I don't see that as a major problem.

Mr. NOWAK. Let me ask you another general question regarding the need for Federal involvement. In economic development through these mechanisms the EDA Programs and the ARC program. Is there a need, and is this the best way to fulfill a Federal involvement?

Dr. SCHWARTZ. I don't think that there is any question that there is a need. A basic principle of the United States is that those who have means assist those who do not have means, to develop their own opportunities. And we do that by Federal taxation that allows us to redistribute some of the income of the country more evenly.

The States that are the most distressed and have both the widest dispersion of unemployment and the longest duration of unemployment are not capable of generating the necessary revenues to begin to provide the infrastructure that they need to move into what you have just been calling the "high-technology era," or even to remain stable in a low-technology era.

Again, West Virginia comes to mind right away, although Kentucky is certainly another excellent example, and many areas of New York's Appalachian region also are in such great need that State governments could never raise the money, even the rich States.

Mr. NOWAK. The last question I have, perhaps you can answer here, but I would appreciate if you could give some thought to it and perhaps give us the benefit of your experience and that of the other members of your organization, because I think you've got a unique perspective and opportunity to add another dimension to this whole debate.

Looking at the concept that I had talked about in the beginning, how can we better coordinate—how can we use EDA and ARC as a catalyst to better coordinate the existing Federal, State, and local programs to deal with economic development problems? How do we invite, and in fact initiate more private sector involvement at the local level into this whole process instead of having "Government programs," whatever they may be?

How do we entice, how do we bring about that private sector involvement that could be in many instances not only necessary but the piece that can in and of itself become the innovator and participator in this whole system?

Dr. SCHWARTZ. Well, you know, this is a question that for once there really is a good and simple answer, and, fortunately, it's the American Planning Association that is a primary custodian of this answer. There is a known technique for finding out how much money needs to be spent on capital improvements, and it's called a "Five-year Capital Improvement Plan" or program. Many States have yet to adopt a really workable capital improvement program.

And most of the States that have it established tend to use it a sort of wish-list. Every community is asked to say what its needs are but no community is forced into the discipline of saying what are its needs in relation to the money that's available to be spent and which investments in public infrastructure will have the largest payoff in terms of encouraging private investment.

In my own personal view, now, speaking from my own experience and not for the organization, it has been a great pity that Federal programs and State and local programs aimed at encouraging private sector development have never until now required anything from the private sector beneficiary. And that is because we have so much competition between localities and between States, no State government or local government dares try to lock in the private beneficiary in any kind of contractual arrangement.

But if the Federal Government looked to some kind of permanence of relationship because it was its money that was being spent, and all States that spent that money had to show that when the road was built or the sewer was built and the XYZ's plant was then going to benefit, that the XYZ plant would employ those promised employees, would keep them on the payroll for the promised amount of time, would pay whatever taxes it was expected to pay or whatever return the community is supposed to get.

So I think we really need to look to the Federal Government to begin to say the unsayable in terms of what kind of a deal this public-private partnership is going to be. Up until now it has generally been not such a great deal for the public side.

And you look at things like Volkswagen in Pennsylvania or this firm that just flew from Chicago after a toy factory, got a big IRB bond in Chicago and lots of breaks from the government and then closed up and quietly stole away in the middle of the night. And those kinds of things are really not very good for anybody, not the locality they're in, not the locality they moved to.

Mr. NOWAK. There are some groups in the private sector now that are looking at developing and spending their own dollars in a community that they've existed in and that they can see are having problems that are not diminishing. And they would like to hire "consultants" to look at their own community or region and say, "What can we do?"

How can we incorporate that into the final process?

Dr. SCHWARTZ. I am not sure I am understanding the question. Surely you couldn't be allowing me to say that there should be a special line in this bill that economic development consultants such as myself must be hired to do a strategy for a community that gets Federal money. So I must be misunderstanding the question.

Mr. NOWAK. I am talking about private individuals who have an interest in the community businesswise, hiring their own private consultants to try to generate, economic development plans. Instead of Washington, or the State, or some public agency bringing plans to the private sector, have the private sector do that and bring it up through the local government interests and then back to Washington.

Dr. SCHWARTZ. Yes.

Mr. NOWAK. Are you aware of any of that that's going on, especially in industrial areas that are looking at recycling?

Dr. SCHWARTZ. Yes, of course, there is a lot of that effort going on. It's usually called an "adjustment strategy," an economic adjustment strategy. For about 10 years it was called an "economic development strategy," and all of a sudden during the last recession suddenly the name changed to "economic adjustment strategy," which just is testimony to what you were talking about a few minutes ago, Mr. Chairman, about the widespread distribution of the stress caused by plant shutdowns and major restructuring of international industries.

I think it is appropriate to require through this legislation that there be an economic development plan for a community and to further require that that plan be integrated in some way with State priorities for economic development. I wouldn't go so far as to say there should be a State plan, because that would mean that a very proactive community that got its own act together in a State which was a little bit bumbling would be precluded from participating. But a community overall economic development plan, which is what it used to be called under the old EDA Programs, is absolutely appropriate.

And I think that it is appropriate, as in the past and as many communities are now doing, to also require that the private sector participate in the design of that plan because many inputs to the success of the plan must come from the private sector. Financing, for example, has to come from the local private sector, as a rule. Even with revenue bonds, someone has to buy them, and in most communities it's the local banks that buy them, not the New York banks.

So I do think that that is necessary and an appropriate requirement to get some order into the system.

Mr. NOWAK. Thank you.

Mr. Gallo.

Mr. GALLO. Thank you, Mr. Chairman.

Thank you, Dr. Schwartz, for your testimony.

I am a firm believer in planning; I have seen too many projects where because the proper planning has not been done we end up with an unacceptable product. Concerning the areas of planning under the EDA and the ARC, are there other Federal programs, that the States are eligible for, which deal with the same matters?

Dr. SCHWARTZ. It depends on how you define planning. The UDAG program requires a set of agreements between the public sector and private sector in order to qualify for a UDAG grant. Community Development Block Grants do not require that kind of coordination. So the major Federal programs that go to communities, that's the spectrum: either none, or this very close sort of contractual arrangement, and the residuals from the old overall economic development plan.

Mr. GALLO. So you're saying that if this capacity available through planning this bill, were not there, would be difficult for the States to be able to supply the necessary planning in the area of economic development?

Dr. SCHWARTZ. Oh, absolutely. The heyday of planning occurred during the 701 period when HUD grants were available for planning, and at that time I worked in New York City and ran the economic development division of the New York City Planning Commission, which had a staff of 500 in its heyday. Most of those people were funded by HUD, and the expertise that was built up by those halcyon days was incredible. And then the money dried up, the expertise went elsewhere, and this is true throughout the country.

We have had a tremendous loss of resources, intellectual resources, creative resources, futuristic resources, because of pulling that not-very-expensive rug out from under the planning system, whether it be in the public sector or the private sector.

Mr. GALLO. I know there is always a tendency to look to cut planning because people want to see a project; they want to see that project in place, and they're very impatient when they hear a great deal of dollars are going into planning.

But I happen to have been involved in local, county, State, and now the Federal Government and I know the importance of sound planning. It makes the difference between a project being very successful and a project falling on its face. And I think sometimes we in Government fail to recognize that, and design programs that are really designed for failure because we don't provide funds for the proper planning and expertise that's necessary to make a project go forward.

I thank you.

Dr. SCHWARTZ. You have a very excellent example of planning in your home State, in the Meadowlands. I have had the pleasure of working on two projects in the Meadowlands, and the long-term potential of that area of land is just extraordinary, and it could so easily have been destroyed if it had not been for really creative leadership that put that general plan in place.

If I could just comment on what you just said about the value of planning, we don't really have any actual numbers that would show how many dollars are saved by sound planning, but I would be willing to guess that it's at least $6 for every one spent in planning that you save by not having delays, you save by not having duplication of effort, you save by not having cost overruns and so forth. I would imagine that would be a really conservative figure.

Mr. NOWAK. Thank you, Mr. Gallo.

The only thing I can say about the Meadowlands, my horses always lose.

I am not too enthused about it. [Laughter.] But let me thank you, Dr. Schwartz, for your appearance and your statement. I think it's a great opportunity for this committee to start thinking about not only supporting the present legislation, but to look a little forward in trying to determine what we do if and when we—and I am sure we will—sustain this program at this level. What is the next involvement that would be appropriate for this committee to consider? How do we look at economic development, not only the Federal programs, but how do we bring together the State programs and what I think is lacking to some degree, more private involvement in the planning and execution of a strategy in a given economically distressed area.

Any thoughts on that this committee would appreciate. If you have any immediate material on that type of subject, we could incorporate it in the record of this meeting. But if not, we would like any input that you could develop over the next few months so that we can look forward to broader participation, as I envision we will need if we are to try to be effective.

If we're going to have a Federal economic presence throughout this Nation, I think we have to do things vastly differently now, than we did with these programs 15 or 20 years ago. And although I think they are of some help, I think perhaps we can convince a much broader sector of the administration to look at this in a different light.

But I think it will take that kind of creativity that many of your members possess. Certainly the thinkers and the practitioners out there could be a great help in motivating not only the Congress but the administration into seeing a broader participation because of the changing national and world economy in which we're involved.

But let me end it with that. Thank you again for your participation. We will be looking for further input. We are now going to recess these hearings until March 26 in this same room at 10 a.m.

Thank you.

Dr. SCHWARTZ. Thank you, Mr. Chairman.

[Whereupon, at 12:45 p.m., the subcommittee recessed to reconvene at 10 a.m., on March 26, 1985.]

TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965, AND THE APPALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

TUESDAY, MARCH 26, 1985

House of Representatives,
Subcommittee on Economic Development,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2167, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

Mr. Nowak. The subcommittee will come to order. We are here today to hear testimony regarding H.R. 10 and other bills to amend the Public Works and Economic Development Act of 1965, as amended, and the Appalachian Regional Development Act of 1965, as amended.

Our first witness today, in our continuing consideration of these matters, is the Honorable Ernest N. (Dutch) Morial, the mayor of New Orleans. He comes to us also as the president of the U.S. Conference of Mayors. I welcome him before the committee with the acknowledgment that there is an important 11 a.m. rally by the association on the Capitol Grounds. So, Mayor, I'll defer the usual accolades that someone in your position truly deserves as a leader looking at economic development in this country, and certainly most importantly, for your citizens of New Orleans, and let you go into your testimony.

Mr. Clinger. Mr. Chairman, may I ask unanimous consent that my opening statement be submitted for the record?

Mr. Nowak. Without objection, the statement will be accepted.

[Mr. Clinger's statement follows:]

Opening Statement of Hon. William F. Clinger, Jr.

Today is the final day of scheduled hearings on H.R. 10, a bill that in substantially identical form passed the House in the 97th Congress by a 281-95 vote and the 98th Congress by a 306-113 vote. These votes demonstrate not only philosophical support for EDA and ARC but support from the opponents of these programs that a reorganizational reform is of absolute necessity since it appears highly unlikely that these programs will be abolished.

I have never championed governmental programs that mindlessly shovel out millions of Federal dollars to isolated projects without some plan. The past has shown such an approach does not work. Moreover with H.R. 10 we will reorganize EDA and establish new criteria for eligibility; we will eliminate direct loans and loan guarantees and we will change the emphasis of this program so the local community will develop its own long term course to economic self-sufficiency. I believe this new direction will be a vast improvement and provide the necessary seed money so desperately needed by local communities.

A friend of mine once told me, "Nothing makes you more tolerant of a neighbor's noisy party than being there." With the recent recession, this country had a very noisy time with the various cries for help. Now, just because some communities have gotten back on their economic feet does not mean they should forget their less fortunate neighbors. H.R. 10 will provide the assistance required and more important, target the money to only these truly needy communities. I look forward to today's testimony and thank the witnesses for taking the time from their busy schedule to come and talk to us today.

Mr. Nowak. Mr. Morial, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT BY HON. ERNEST N. MORIAL, MAYOR OF NEW ORLEANS, PRESIDENT OF THE UNITED STATES CONFERENCE OF MAYORS

Mr. Chairman and members of the subcommittee, I am Ernest N. Morial, mayor of New Orleans and president of the United States Conference of Mayors. I appear before you on behalf of the conference to reaffirm our strong support for the continuation of the Economic Development Administration and its programs. We applaud the efforts of this subcommittee in the last two Congresses to continue and to improve EDA and its programs. Be assured that we will work with you in this Congress and to achieve passage of both H.R. 10 and H.R. 376, in the House and in the Senate.

THE IMPACT OF THE BUDGET PROPOSALS ON CITIES

Because of the scope and the depth of the budget actions that have been proposed by the administration—which, of course, include the elimination of the Economic Development Administration and the termination of its programs—the conference of mayors recently conducted a survey, "The Impact on America's Cities of the Administration's Federal Budget for Fiscal Year 1986." With your permission, I would like to submit a copy of this report for the record.

In the survey we asked what effect the elimination of the loan and grant programs of the Economic Development Administration, along with the elimination of HUD's section 312 loans and section 108 loan guarantees and the termination of the small business administration and its programs, would have on cities. Over four out of every five survey cities responded that the effect would be adverse or very adverse. Officials in Jamestown, New York responded: "We have heavily utilized the EDA programs to attempt to rebuild our infrastructure and would definitely be hurt by EDA's proposed elimination." Grand Forks reported that EDA had made the development of a foreign trade zone possible. Beaumont, Texas officials stated: We use them all and rely on them." Indeed nearly one-half (44.4 percent) of the 157 cities which responded to the survey had received loans or grants from EDA during the last fiscal year.

EDA PROJECTS IN NEW ORLEANS

Since I became mayor of New Orleans in May, 1978, we have received over $14 million in EDA loans and grants that have been used for capital improvements, business loans and economic development planning. In no instance has the EDA participation in capital projects been more than 50 percent, and in most cases it was considerably less, leveraging considerable amounts of other public and private funds.

The New Orleans Exhibition Center, a $90 million development which has contributed greatly to the growth of tourism in New Orleans, would not have gone forward without the $3.5 million contributed by the Economic Development Administration. Similarly, EDA funds of $957,000 were used in conjunction with city, sewerage and water board and private funds to generate a total of $2.2 million for the construction of a vital access road to a new business industrial park in the Almonaster-Michaud industrial corridor. And these projects create jobs—many jobs. In the Almonaster project alone we will eventually have 30,000 new jobs.

EDA projects in New Orleans have resulted from sound economic development planning and have ranged from neighborhood commercial revitalization to industrial development. The projects have contributed to every aspect of our community and our local economy—the port, tourism, historic preservation, neighborhood stability, downtown development and industrial growth.

A FEDERAL BUDGET FREEZE

The programs of the Economic Development Administration and many other Federal programs—general revenue sharing, urban development action grants, community development block grants, transit assistance, wastewater treatment construction grants, and employment and training programs, to name a few—are vital components of the Federal-city partnership. Because of their importance, the executive committee of the conference of mayors voted just over two weeks ago to support a freeze for at least a year on all non-means tested programs in the Federal budget and to support increased revenues from measures other than the personal income tax. We feel that through this approach the Federal Government can reduce the deficit without abdicating its responsibilities to the cities or to the people who live within them. We urge this committee and the Congress to take this approach in the development of a fair Federal budget.

PROPOSED ECONOMIC DEVELOPMENT LEGISLATION

The conference, of course, supports H.R. 376, which provides for a three year simple extension of the programs under the Economic Development Act. We support H.R. 10 as well. It would not only continue, but also improve upon the programs now operated by EDA, and would assist us in revitalizing our cities and their economy through:

The construction, repair, rehabilitation and improvement of public facilities, land acquisition and site preparation;

The capitalization of revolving loan funds to promote or retain small businesses; and

The prevention of economic dislocation and the provision or economic adjustment assistance.

It is important that the legislation recognizes the need to leverage private sector resources in conjunction with local and Federal efforts to improve the physical and economic structure of cities.

The eligibility criteria which the act would establish provides a good base for identifying communities in need and are tighter than those in the previous versions of the bill. We do urge, however, that it be made clear that funds are to be directed to those areas of the greatest need.

Finally, the conference has long recognized the need for streamlining economic development planning and technical assistance activities. We realize that cities must make more of an effort to understand their local economies and plan for a more aggressive economic development role. This must be done in a coordinated fashion. The bill would assist communities to develop the capabilities necessary to formulate action-oriented strategies that would guide the investment of economic development resources, and this is good.

Thank you for the opportunity to appear before you today. Be assured that the conference of mayors stands ready to assist you in any way to continue the programs of the Economic Development Administration and, if possible, to improve upon them.

Mr. NOWAK. Please proceed.

TESTIMONY OF HON. ERNEST N. MORIAL, MAYOR OF NEW ORLEANS, PRESIDENT OF THE U.S. CONFERENCE OF MAYORS

Mr. MORIAL. Thank you, Mr. Chairman and members of the subcommittee. As indicated, I'm Ernest N. Morial, mayor of the city of New Orleans and, also, president of the U.S. Conference of Mayors. Today I appear here on behalf of the U.S. Conference of Mayors, primarily to reaffirm the conference's strong support of the continuation of the Economic Development Administration and its programs. The conference applauds this committee in its efforts in the last two Congresses to continue and to improve the EDA and its programs. We will continue to work with the Congress and this committee to achieve both the passage of H.R. 10 and H.R. 376, not only in the House, but in the Senate, as well.

I would like to begin by talking a little about the impact of the budget proposals on cities. Because of the scope and the depth of the budget actions that have been proposed by the present administration, which also include the elimination of the Economic Development Administration and the termination of its programs, the Conference of Mayors recently conducted a survey of the impact of those budget proposals on America's cities. With your permission, I would like to submit a copy of this report for the record.

Mr. NOWAK. Without objection, so ordered.

[The following was received from Mr. Morial:]

THE IMPACT on AMERICA'S CITIES of the ADMINISTRATION'S FEDERAL BUDGET for FISCAL YEAR 1986

MARCH 1985

United States Conference of Mayors

INTRODUCTION

Background

The proposed federal budget for Fiscal Year 1986 was sent to Congress by the President on February 4. A detailed analysis of the budget document was published by the U.S. Conference of Mayors on February 7. That analysis indicated that the budget "proposes to eliminate or sharply reduce nearly every federal urban program of significant benefit to cities."

The Administration's budget proposal contains significant increases in defense spending on one hand, and significant decreases in domestic spending on the other. For FY86, grants to states and localities would drop by $20 billion, or 18 percent. Using FY81 as a base year, federal grants to state and local governments, after accounting for inflation, will have dropped 50 percent by FY86. For the key federal programs of direct benefit to cities, the drop from FY81 to FY86 would be 80 percent in real dollars, not accounting for inflation.

In a press conference called to release the federal budget analysis, New Orleans Mayor Ernest Morial, President of the Conference of Mayors, highlighted the proposed actions of greatest concern:

- "The General Revenue Sharing program would be eliminated in Fiscal '86. Revenue Sharing is a fundamental component of most city budgets. Its loss would trigger wide-ranging and disruptive cuts in the most basic public services, such as police and fire protection, and would force some local tax increases. The proposal to end revenue sharing next year comes as a shock to mayors who believed that the Administration would stand behind this program.

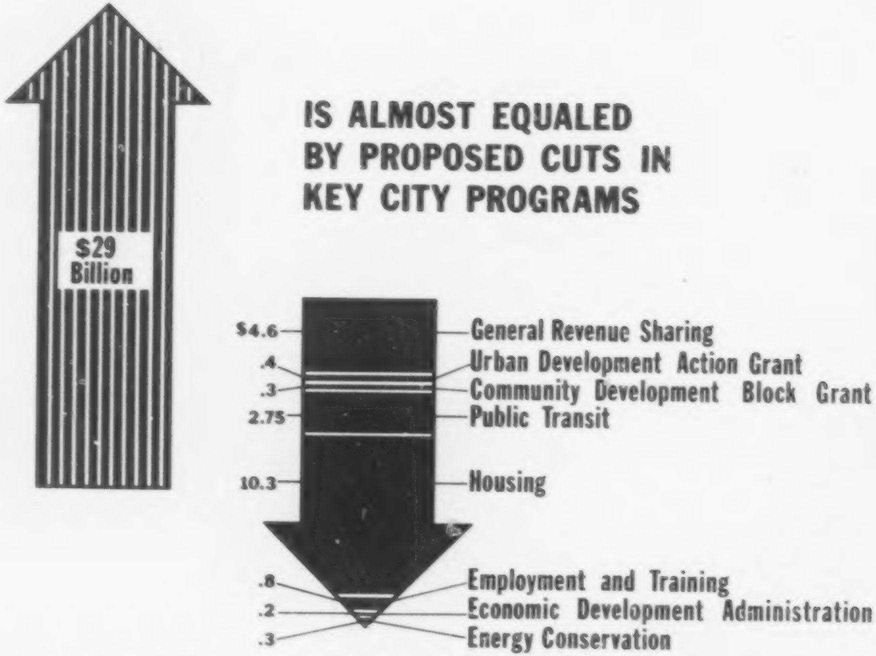
- "Community Development Block Grants would be reduced by about 23 percent for entitlement cities. This would occur as a result of cuts and modifications in the way funds are distributed to cities. These funds are considered essential by the cities which use them in so many ways to develop neighborhoods and create new opportunities for our citizens.

- "Urban Development Action Grants would be eliminated. These grants are tested, effective tools to leverage large amounts of private development money in our cities. Each UDAG dollar stimulates $6 in private investment at the local level.

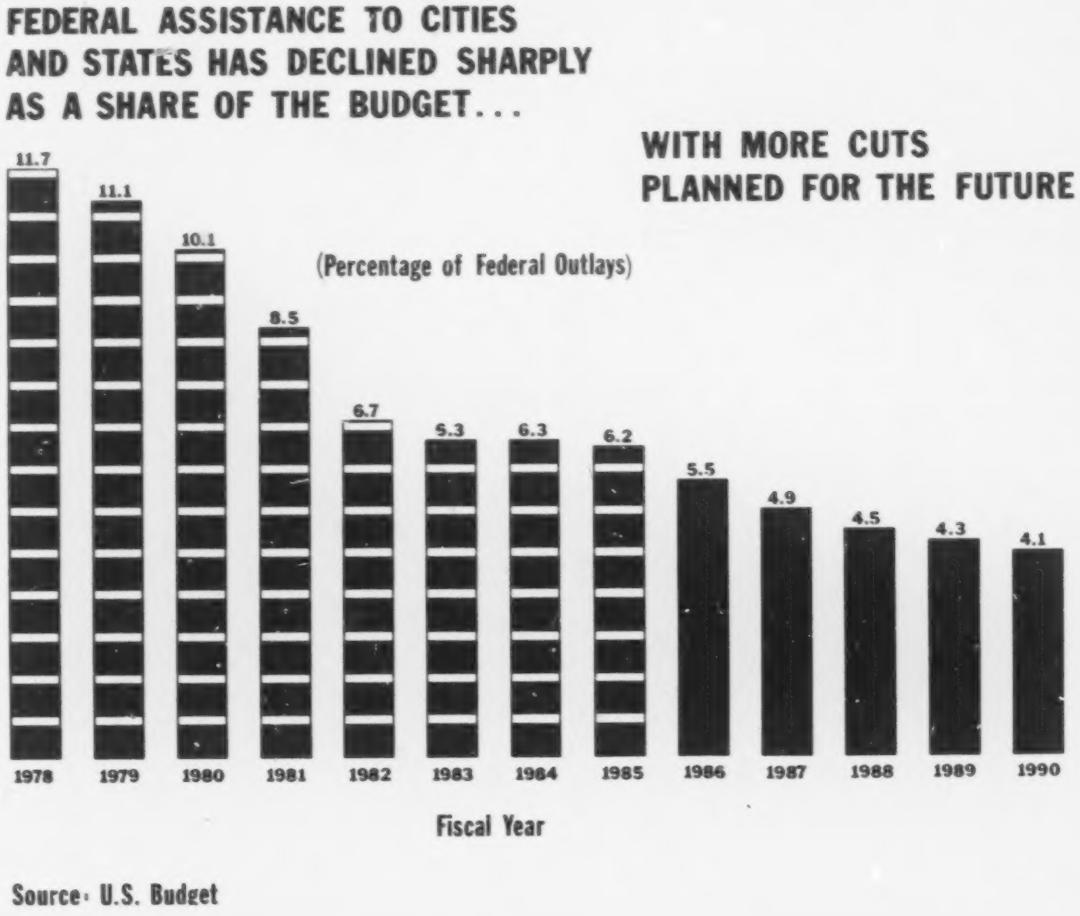
- "Housing assistance funds would be cut from nearly $11 billion this year to less than a half-billion dollars next year, and there would be no new housing assistance funds of any kind for next year or the year after. Our low income and elderly citizens would be hard hit by this proposal.

THE PROPOSED FY86
DEFENSE BUDGET
INCREASE...

IS ALMOST EQUALED
BY PROPOSED CUTS IN
KEY CITY PROGRAMS



Source: U.S. Budget



FEDERAL ASSISTANCE TO CITIES AND STATES HAS DECLINED SHARPLY AS A SHARE OF THE BUDGET...

WITH MORE CUTS PLANNED FOR THE FUTURE

Source: U.S. Budget

- "Public transit would be cut $2.75 billion -- two thirds of the total federal effort. The public transit block grant which provides most capital and operating assistance would be completely eliminated, resulting in service cuts and some shutdowns in cities.

- "Youth and jobs programs would be cut several ways. Summer jobs for disadvantaged youth would be cut in this Fiscal Year and again in Fiscal '86. About $900 million would be cut from the Job Training Partnership Act. The Job Corps, the Work Incentive program and others would be eliminated altogether.

- "Direct loan programs would be cut in half, a credit loss of nearly $28 billion. The Small Business Administration, the Economic Development Administration and other major programs would be completely eliminated. Low rent public housing loans would drop from over $14 billion to less than $2 billion.

- "A $4 billion Medicare cut and a $1.1 billion Medicaid cut would place heavy burdens on those needing health care and on the cities responsible for Medicaid, public hospitals and other health services.

- "Despite increasing numbers of hungry and homeless citizens, and despite increasing demand for emergency human services, there would be no funds to continue the emergency food and shelter programs, and special commodity distribution programs would be discontinued as well."

The Survey

Because of the scope and the depth of the budget actions proposed by the Administration, Mayor Morial, following consultation with the organization's Executive Committee, directed the Conference of Mayors staff to assess the impact that the proposals would have on cities across the country.

On February 15 a questionnaire was mailed to a sample of more than 400 mayors of cities over 30,000 in population -- about half of all cities this size in the nation. The Conference of Mayors represents cities of 30,000 and above.

The questionnaire sought information on impact of proposed program terminations and cuts in nine areas:

- General Revenue Sharing
- Community Development Block Grants
- Urban Development Action Grants
- Public Transit
- Wastewater Treatment Construction Grants
- Assisted Housing
- Loan Programs
- Employment and Training
- Health

MOST MAJOR CITY PROGRAMS ARE ELIMINATED OR GREATLY CURTAILED BY THE PROPOSED FY86 BUDGET

General Revenue Sharing	ELIMINATED
Urban Development Action Grants	
Economic Development Administration	
Job Corps	
Housing Rehabilitation	
Low-Income Housing	

Community Development Block Grant -- 10% CUT, plus

Public Transportation -- 66% CUT

Employment and Training -- 22% CUT

Energy Conservation -- 88% CUT

Source: U.S. Budget

It also sought information on:

- Ability of city governments to raise local revenues to compensate for federal budget actions;
- Likelihood that state governments would provide funds to compensate for federal cuts;
- Current surplus/deficit situation in city budgets;
- Impact of Treasury Department tax reform proposals on city projects and services.

Mayors were asked to return completed questionnaires to the Conference by February 25; data were accepted by the Conference through March 4. A total of 157 cities responded to the survey. The responses came from cities in 42 states and Puerto Rico, and from the District of Columbia.

Summary of Findings

The sections which follow in this document present the findings of the survey in each of the program, revenue and tax areas listed above. Following are highlights of these findings.

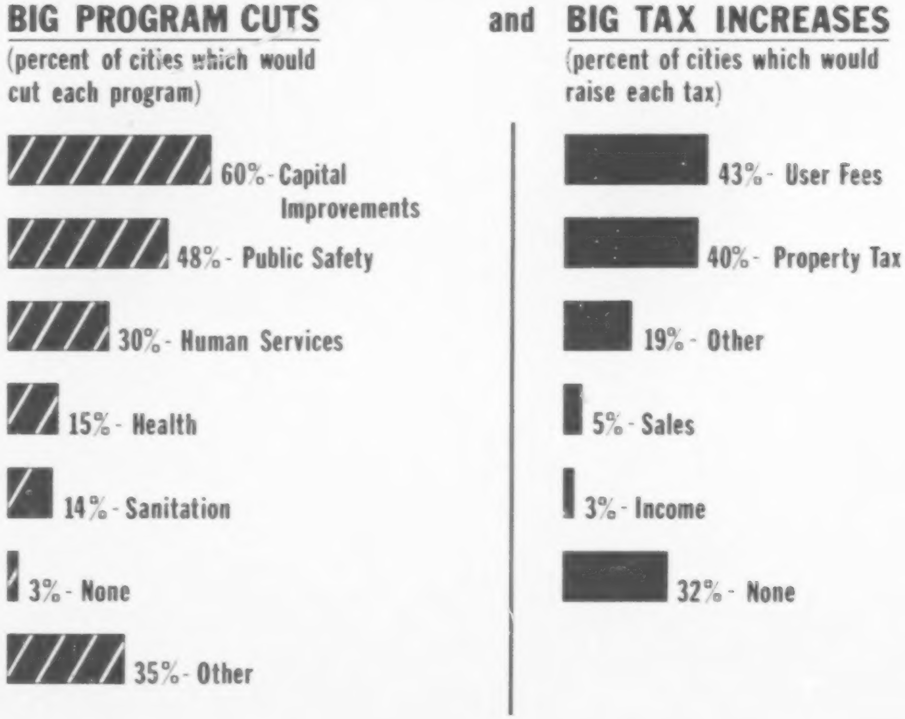
General Revenue Sharing

If General Revenue Sharing is eliminated as proposed in FY86, 97 percent of the cities responding to the survey would cut services. Capital improvements would be cut by 60 percent of the cities; public safety would be cut by 48 percent. In addition, 68 percent of the respondents predicted some type of local revenue increase to compensate for the loss of the revenue sharing funds. In 43 percent of the cities user fees would be increased; 40 percent would increase property taxes. Only five percent of the cities expect any state aid to compensate for the revenue sharing loss.

Community Development Block Grants

A 23 percent cut for Community Development Block Grant entitlement cities would result from the Administration's proposed cut of 10 percent in CDBG funds and proposed shift in entitlement cities/small cities funding ratio from 70:30 to 60:40. Almost 93 percent of the respondents said these proposals would have either an adverse effect or a very adverse effect on their cities. While over 31 percent of the cities would make across-the-board cuts in all areas for which CDBG funds are used, most cities -- more than two out of three --would cut housing programs, and about 54 percent would cut public works and infrastructure improvements.

ELIMINATION OF GENERAL REVENUE SHARING MEANS....



BIG PROGRAM CUTS
(percent of cities which would cut each program)

and

BIG TAX INCREASES
(percent of cities which would raise each tax)

Urban Development Action Grants

For 70 of the cities responding to the survey, an estimated 102,000 jobs and nearly $4.3 billion in investment will be lost if Urban Development Action Grants are eliminated as proposed in FY86. Of the 292 UDAG projects now being planned in these cities, only nine would go forward without UDAG funding. Nearly three out of every four respondents said the loss of UDAG would have an adverse or very adverse effect on their cities.

Public Transit

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, including a total elimination of federal operating assistance and a rise in the local matching share required by the federal government. Among the cities responding to the transit question, 83 percent said that fares will increase if the federal assistance is cut. Of the cities predicting fare increases, 19 percent say that fares will at least double; another [illegible] percent would increase fares by more than half. In addition, three out of four cities would reduce their vehicle fleets, and 70 percent would eliminate some public transit routes. While overall transit service would decline significantly in most cities, nearly 39 percent of the respondents said that their systems would be threatened with shutdowns.

Wastewater Treatment Construction Grants

The Administration is proposing a four-year phaseout of wastewater construction grants, with a likely 25 percent reduction in each of the next four years. Almost 36 percent of the respondents said they would be unable to complete existing wastewater treatment facilities in their cities if the phaseout goes through. About half of the cities are under court order, consent decree or other binding contract to build new plants or finish existing ones in order to meet 1988 clean water standards. Sixty percent of these will not be able to meet these obligations without a significant increase in taxes or user fees.

Assisted Housing

The budget for FY86 proposes a moratorium on all new units of assisted housing. Over 88 percent of the respondents said the availability of housing affordable by low income people would be either adversely or very adversely affected by the moratorium. The proposed one-year elimination of funds for modernization would have an adverse or very adverse effect in nearly 78 percent of the responding cities. For 93 percent of the cities, waiting lists for assisted housing would lengthen because of the moratorium. On average, the waiting list for Section 8 units is more than 2 years, for Section 202 units, 18 months; for public housing units, almost two years.

IF THE PROPOSED FY86 BUDGET CUTS ARE APPROVED....

96% of planned projects based on UDAG funding will not go forward...	⬇	...with a loss of 102,000 jobs and $4.3 billion in investment
83% of cities will raise transit fares...	⬆	...with 36% of fares rising more than half
70% of cities will experience cuts in health services...	⬇	...with many to experience shifts in costs to local health departments
60% of cities would have to raise taxes to meet wastewater needs...	⬆	...with 43% rising more than 25%
More than 93% of cities will be adversely or very adversely impacted by the CDBG cut...	⬇	...with major impacts in housing, public works and economic development
Youth unemployment will rise...	⬆	...with more than 37,000 kids forced from the summer jobs programs

Loan Programs

As proposed in the FY86 budget, the elimination of Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the Economic Development Administration's loan and grant programs would adversely or very adversely affect over 83 percent of the cities responding. Section 312 loans totaling nearly $34 million and involving well over 3500 housing units were used last year by 57.5 percent of the respondents. Section 108 loan guarantees were used by 17.5 percent of the cities. EDA loans and grants totaling more than $38 million went to 44.4 percent of the cities.

Employment and Training

Over 80 percent of the respondents said the proposed elimination of the Job Corps and cuts in the summer youth employment program and dislocated worker program would have an adverse or very adverse effect on their cities. Over 37,000 young people in 77 survey cities would be removed from jobs programs this summer by the proposed recission of $100 million in summer funds. In more than four out of five of these cities, alternative services will not be available for the young people who are affected.

Health

The Administration's proposal to cut the Medicaid program, capping federal matching payments to the states, will reduce locally available health services or the number of people who receive health care in 70 percent of the cities responding; in almost all of these cities, both services and people served would be cut. The proposal to freeze health block grants and reduce funding for various other health programs would trigger an increase in sexually transmitted disease in two out of three cities responding. Childhood disease rates would be expected to increase in 64 percent of the cities, infant mortality rates in 62 percent and tuberculosis rates in 60 percent. More than half of the cities would expect an increase in all four of these health indicators.

City Revenues

Over half of the cities responding say they would have to raise local revenues to compensate for proposed cuts in the federal budget. Most of those that would not raise revenues are constrained from doing so by state law, have high tax burdens already, or believe that approval of increases by voters, city councils or state legislators is unlikely. Increases in property taxes and user fees would be sought by most of the cities to compensate for federal aid losses in key urban programs.

State Aid

A total of 85 percent of the cities responding say they expect no additional funds from their states to compensate for the proposed federal budget cuts.

City Fiscal Conditions

More than nine out of 10 of the responding cities were forced to raise revenues or reduce services last year in order to balance their budgets. Nearly half raised user fees, 41 percent laid off workers or instituted hiring freezes, 40 percent cut services and 28 percent increased property taxes. Two out of three of the survey cities forecasting budget surpluses this year have already committed the funds to ongoing services or to the pay-back of prior year deficits.

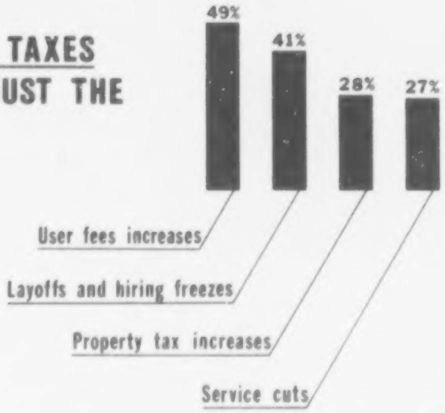
Treasury Department Tax Proposals

The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one survey city citing at least one project or effort that would be negatively affected. For 87 percent of the respondents, the proposed elimination of the deductability of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or would have other negative effects.

Appendices

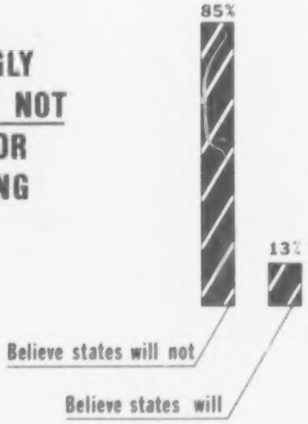
The questionnaire used in the survey is included in Appendix A. Appendix B contains specific responses to selected questions for 50 of the survey cities. Appendix C contains a list of the cities responding to the survey and the 1980 Census Bureau population counts for them.

CITIES HAVE RAISED TAXES AND CUT COSTS IN JUST THE LAST YEAR....



and

CITIES OVERWHELMINGLY BELIEVE STATES WILL NOT COMPENSATE THEM FOR LOST FEDERAL FUNDING



GENERAL REVENUE SHARING

The overwhelming majority of cities responding to the survey predict major local budget cuts and tax increases if general revenue sharing is eliminated. Since 1972, revenue sharing has been incorporated into local budgets in an integral fashion, with cities using the funding for public safety, a variety of human services programs and many other vital city efforts. For survey cities, it ranges as a percent of city budgets from one to 25 percent.

Local Budget Cuts

A total of 97 percent of the respondents predict cuts in services if revenue sharing is lost.

- 60 percent say they would cut capital improvements
- 48 percent would cut public safety
- 32 percent would cut human services
- 15 percent would cut health services
- 14 percent would cut sanitation

In addition, 35 percent listed other major adjustments in expenditure levels -- cutting street and building maintenance, education programs, downtown development efforts, and transit; laying off workers and making across-the-board reductions in programs.

Local Tax Increases

Cities also said they would have to enact revenue increases to compensate in whole or in part for the elimination of revenue sharing. A total of 68 percent predicted some type of increases.

- 43 percent said that user fees would be increased
- 40 percent would increase property taxes
- five percent would increase sales taxes
- three percent would increase income taxes

Most cities do not have the authority to impose sales or income taxes.

In addition, 19 percent cited other major revenue adjustments -- increasing franchise taxes, permits and fines, utility taxes, license fees, business taxes, hotel taxes and the like.

Among the 32 percent of cities who said they would not raise taxes, many explained they could not because of state tax limitations, already very high tax burdens or the unlikelihood of getting council or public approval.

Finally, many cities volunteered other changes they thought they would be forced to make -- increasing debt financing, contracting more services to the private sector, deferring capital expenditures and personnel cuts, among others.

In response to the question as to whether cities expect any state aid to compensate for the loss of revenue sharing, fully 94 percent of the cities say they do not expect any such help. Only five percent predict that the state will reimburse them for any of the revenue sharing cut. Of the seven cities that said the state might help, most did not predict a percentage; in general, those who did believed the aid would be quite low.

COMMUNITY DEVELOPMENT BLOCK GRANT

Almost 93 percent of the cities responding indicate that the proposed 10 percent cut in Community Development Block Grant funds and change in the entitlement cities/small cities ratio from 70:30 to 60:40 would have either an adverse or very adverse effect.* Together the 10 percent cut and the ratio change would mean a 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. Three cities report the effect would be minimal. Seven say there would be no effect. At least three of these do not now receive CDBG funds, however.

For a number of cities the proposed cut comes on top of other reductions in their CDBG allocation in recent years. Baton Rouge indicates its allocation has dropped $250,000 over the last three to four years. Milwaukee has already absorbed a $5 million cut in its CDBG allocation.

Peoria officials report that "community and economic development activities will be curtailed during a time of high unemployment and economic dislocation." For Washington, D.C., CDBG funds have been used to "provide assistance to those who need help. Gains made in the past would be affected and new improvements will not be available." Officials in Orem, Utah expect the major impact will be on "people programs." In Grand Forks the recent direction of the city's economic development efforts -- a new foreign trade zone -- would be changed significantly and the city's ability to create jobs would be particularly affected.

Tacoma reports that the proposed cuts would result in a loss of jobs (public and private), elimination or reduction of funding to agencies providing public services, and great difficulty in leveraging private investment. In Charleston, South Carolina "the two most run-down areas of the city have received substantial assistance in housing rehabilitation and job creation through the CDBG program....Since there is no way to raise sufficient local funding, neighborhood revitalization programs will deteriorate and begin regressing." Chicago officials report the cut would require them to close a health center, eliminate infrastructure improvements and postpone rehabilitation of 1250 housing units. Annapolis officials explain that "funds have already been targeted to construction of a badly needed senior center. Cuts will, at best, delay construction substantially and, at worst, extinguish the concept altogether."

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* Entitlement cities include cities of 50,000 population and above, the central city of a Standard Metropolitan Statistical Area, urban counties, and some cities "grandfathered" in that had entitlement status and lost it due to population changes.

Program Areas

Cities use their CDBG funds for a variety of purposes, including economic development, housing assistance, social services, and public works/infrastructure improvements. Over one-half (52.7 percent) of the cities reporting put more of their CDBG funds into housing than any other area. Forty of these cities use 50 percent or more of their allocation for housing. Public works/infrastructure improvements account for the next most common use of the funds, with one-fourth of the cities reporting that they use more of their CDBG funds in this area than any other. These areas are followed by economic development (14.2 percent), social services (4.1 percent) and other (4.1 percent), which includes items such as administration, planning, land acquisition, property maintenance, and recreation.

The two leading purposes switch when the areas in which cities put the second greatest amount of their CDBG funds are examined. Public works/infrastructure is first with 30.1 percent of the cities, and housing is second with 23.3 percent of the cities.

When asked which of these areas would most likely be cut as a result of the federal cut, officials in 45 cities (31.3 percent) report that cuts would be made across the board in all areas for which CDBG funds are used. Housing would be cut in over two-thirds (69.4 percent) of the cities responding. Public works/infrastructure improvements would be next, with 54.2 percent of the cities making cuts there. These are followed by cuts in economic development (in 49.3 percent of the cities), social services (in 43.8 percent of the cities) and other (in 28.5 percent of the cities).

State Restorations

Only two cities expect their state governments to provide funds to compensate for the proposed federal cut in CDBG.

URBAN DEVELOPMENT ACTION GRANT

An estimated 102,000 jobs and nearly $4.3 billion in investment in projects now being planned in 70 of the cities responding to this survey will not be realized if Urban Development Action Grants are eliminated. Of the 292 UDAG projects being planned in the cities, only nine are expected to go forward without UDAG funding. These that would not go ahead without UDAG funding involve an estimated $728 million in UDAG funds, $200.9 million in other public funds, and $3.6 billion in private investment, and would create or retain an estimated 102,000 jobs.

The elimination of Urban Development Action Grants in FY86 would result in an adverse or very adverse effect in nearly three out of every four cities responding. Thirty-seven cities (26.4 percent) would feel no effect, but at least 30 of these are not eligible for the program or have been unable to receive grants with the current highly-targeted selection criteria.

Several cities report on the contribution that prior UDAG projects have made to economic development and the local economy in their cities. In Asheville, North Carolina, tax valuations have increased by approximately $23.6 million. Tacoma has received five UDAGs for a total of $10.5 million, resulting in $82.4 million in private investment and $500,000 in new taxes. In Milwaukee the UDAG program "has been responsible for leveraging over $250 million in private investment, generating new local tax revenues and creating nearly 5000 new permanent jobs."

Beaumont, Birmingham, Davenport, and Peoria all discuss how crucial UDAGs are to their downtown development. In Davenport two downtown projects hinge on UDAG grants. Peoria officials report that "the city's plan for rebuilding its downtown and strengthening the devastated local economy would lose the major projects to achieve development success."

Syracuse reports that "virtually no other funding source for large new construction projects" exists. Flint points out that without UDAG "development activity would cease because only Fortune 500 companies or high income projects can support development at conventional interest rates." Jersey City officials, who term the elimination of UDAG "very, very, very adverse" for their city, are concerned that potential developers would be scared away. Louisville explains that blighted areas will have no gap financing as incentives for development. Evansville has "a number of vacant or under utilized industrial facilities for which UDAG-type funding is essential for the projects to be financially feasible."

Erie sees Urban Development Action Grants as "very important leveraging tools for major revitalization and economic development projects involving public/private partnerships." In Akron, UDAGs "are an essential part of the proposed financing of many major economic development projects....Many past developments would not have occurred without UDAGs." Baton Rouge officials state that the elimination of UDAG "would substantially undercut our abilities to leverage redevelopment efforts particularly in downtown and the inner city. Local governmental financing to fill this development gap is totally insufficient to address this revitalization effort in any meaningful way."

State Restorations

Only two cities expect their state governments to provide funds to compensate for the elimination of the UDAG program.

PUBLIC TRANSIT

Based on the survey, cities face sharply higher transit fares, fewer transit vehicles, reduced service -- and in a substantial number of cases, shutdown of their transit system -- if the Administration's proposed FY86 transit budget is enacted.

The Administration seeks a two-thirds cut in the nation's program of transit assistance. Under its proposal, the transit formula block grant program -- appropriated at $2.4 billion in FY85, would be completely eliminated. The one-cent federal gasoline tax, which yields $1.1 billion annually earmarked for transit discretionary expenditures, would be all that would remain under this proposal. Under the Administration's plan, it would be distributed by formula, replacing the current formula program. But even after this two-thirds reduction, no funding would be permitted for operating assistance or new rail starts. The required local match would rise from 20 to 30 percent.

The impacts of this proposal on cities would be stark. Although most transit in cities is operated by regional transit authorities and not by cities directly, 75 percent of cities responding to this survey were able to provide information regarding impacts on transit in their cities.

Fare Increases

Of the cities responding in the transit area, 83 percent report that fares will increase if the transit cut is passed.

Not every city can specify the precise range of the fare increase, but some 65 percent can now predict the range of increase, and these results indicate that very high transit increases would be forthcoming, as the figures below indicate:

Transit Fare Increases

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	28.1%
26-50%	35.9%
51-100%	17.2%
101%-Above	18.8%

Almost 40 percent of the cities predict an increase of at least 50 percent, and about one out of five indicate that fares would at least double.

Vehicles Reductions

The proposed transit cut, which would completely eliminate operating assistance, would substantially reduce the number of transit vehicles in service. With less money to operate systems, and far fewer funds to replace worn out vehicles, cities will simply reduce fleets. Of those cities providing transit information, some 75 percent would be forced to reduce vehicle fleets, causing greater waits for service and more transit crowding and congestion, thereby reducing the overall quality of transit service.

Route Reductions

In addition to vehicle reductions, a large proportion of cities would be required to eliminate specific routes if the proposal was approved. More than 70 percent of the cities providing transit information fall into this category. Thus, whole neighborhoods or sections of cities could find transit service markedly diminished.

Service Reductions

Of those responding in the transit area, some 69 percent would be required to reduce overall transit service. But the percentage of service reduction which would be required is also revealing, as the figures below indicate:

Transit Service Reduction

Percentage Reduction	Percentage of Cities Predicting Service Reduction
1-25%	54.9%
26-50%	30.5%
51-75%	9.8%
76-100%	4.9%

All reductions of transit service have potentially serious impacts in cities. With more than 45 percent of the cities predicting overall service cut-backs of more than 25%, the mobility of U.S. transit riders is in jeopardy.

Threat of Shutdown

If the proposed transit budget cuts were enacted, most cities would deal with them through a combination of the above -- fare increases, and vehicle, route and service reductions. But for a sizable portion of cities, those measures would be insufficient to sustain their systems. Indeed, of those cities providing transit information, 38.6 percent report that their systems would be threatened with a shutdown.

New State Assistance

While the role of states in funding public transit has gradually increased in recent years, there is no belief among cities that additional state aid will be forthcoming in this area should the Administration's budget proposal be enacted. Less than eight percent anticipate new state transit aid.

WASTEWATER TREATMENT

Vastly increased local taxes and user fees, and threats to housing, community and economic development, jobs and environmental quality are anticipated in cities should the Administration's wastewater treatment proposal be enacted. The Administration proposes to phase out the $2.4 billion dollar wastewater treatment construction grants program over four years, ending eligibility now for new projects. The wastewater program, cut in half in FY81, helps cities meet federal standards under the Clean Water Act.

In most cases, metropolitan sewerage agencies, rather than the cities themselves, build and operate wastewater treatment plants. However, some 72 percent of those cities responding to the survey were able to give detailed information regarding the impact of the Administration's proposal.

Prospects for Completion of Projects

Of those cities, almost 36 percent would be unable to complete existing projects in four years if the budget proposal is enacted. With no federal assistance remaining, many cities across the nation would be left with unfinished wastewater treatment plants.

Court Orders and Decrees

Although federal funding may expire, to comply with 1988 clean water standards, many cities must finish existing plants or construct new plants because of judicial consent decrees, administrative orders or other binding contractual agreements. Of those cities providing wastewater information, 49 percent are in this category.

Tax/User Fee Increases

A clear majority of cities responding will not be able to meet their wastewater obligations without a significant increase in taxes or user fees. Indeed, 60 percent would be required to resort to significant tax increases or user fee increases to meet this obligation. The range of this local tax increase or user fee increase is difficult for most cities to currently estimate. However, some 43 percent are prepared to estimate the increases now as the figures below indicate:

Tax/User Fee Increases to Meet Wastewater Needs

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	57.1%
26-50%	22.4%
51-75%	2.0%
76-100%	8.2%
100%-Above	10.2%

Thus, almost 43 percent of these cities predict tax or user fee increases of more than 25% to meet wastewater needs.

Impacts of Inability to Meet Needs

If cities cannot complete existing projects or construct new projects, this will have significant effects on housing, community development, economic development, jobs and environment quality. Wastewater treatment capacity is an essential element to achieving each of these key urban goals.

Not all cities can now provide information in this area. But of those providing wastewater information, 65 percent did provide information on the nature of these impacts. That information is summarized in the figures below.

Impact of Inability to Meet Wastewater Needs

Areas of Impact	Percentage of Cities Predicting this Impact
Housing	63.5%
Community Development	68.9%
Economic Development	77.0%
Jobs	68.9%
Environmental Quality	94.6%

Virtually all cities in this category reported multiple impacts from a failure to meet wastewater needs.

State Aid

Although funding for wastewater treatment is passed by the federal government to cities through state governments, less then four percent of cities providing wastewater information anticipate increased aid from states in this area.

ASSISTED HOUSING

Waiting lists for assisted housing are expected to lengthen in 91 percent of the cities responding, and the proposed moratorium on all new units of assisted housing will have an adverse or very adverse effect on the availability of housing affordable by low income people in nearly nine out of every 10 cities responding. Nearly one-half (46 percent) of the cities expect the effect to be very adverse; another 42.3 percent of the cities expect the effect to be adverse. Sixteen cities indicate there will be no impact.

Among the cities responding to the housing questions, 32,984 units of federally assisted housing were allocated during FY84. These include 16,175 Section 8, units, 2,494 Section 202 units, 5,344 public housing units, and 8,971 units under the rental rehabilitation program.

Units Needed

The number of new assisted units that cities need varies significantly. Evansville cites a need of 100 units annually. Caguas, Puerto Rico reports that "over 500 units of housing are needed each year to compensate housing needs in our community. Without this assistance affordable housing would be greatly affected." San Juan "has a present demand of 20,000 housing units per year. This coupled with 47.4 percent of the families below the poverty level (1980) in San Juan makes this proposal very detrimental for our city." Charleston officials comment: "Elimination of the funds would keep us from adding new units. We currently have over 1800 families on the waiting list. The two year moratorium of subsidies may make the projects unattractive for private developers." In Kansas City "the Section 8 program is about 2000 households. A moratorium on housing assistance will exacerbate this problem."

Growth Cities

Two growing cities point out particular housing needs. Reno explains that "because of current expansion in the casino industry, which employs large numbers of low income staff, there will not be housing available to meet needs." Tempe is experiencing rapid population growth, with a concomitant need for an increase in assisted housing.

Discussing assisted housing, Honolulu officials state: "That's one of our highest priority items -- a big problem already. We need more -- not less -- low income housing." Hayward officials point out that "Section 8 is the ONLY means of helping the 'truly needy' -- disabled, elderly, women and children who have been abandoned." Finally, "Grand Forks already has a long waiting list for assisted housing. Cuts in this program would impact low income people who cannot afford safe and decent housing. It would also seriously affect our efforts to revitalize the central business district through rehabilitation of existing units," according to officials in that city.

Public Housing Modernization

The one year elimination of funds for modernizing public housing projects, with limited funds available only for emergencies, would have an adverse effect on 43.2 percent of the cities responding and a very adverse effect on another 33.3 percent. Thirty-three cities (23.4 percent) report that the proposal would have no effect on their public housing.

Waiting Lists

The proposed moratorium would lengthen the waiting lists for assisted housing in 93 percent of the cities responding.

The average waiting list for Section 8 units in the cities responding is 26.3 months. Twenty-nine cities have a wait for Section 8 of three years or more. Miami and Rockford each report waiting lists of 12 years. Only seven cities have waiting lists for Section 8 of six months or less.

The average waiting list for Section 202 is 18 months. Twenty cities have a wait of 24 months or more for this program. Jamestown tops the list with a wait of 60 months, with Oak Park, Michigan, Reno and San Francisco following with 36-month waits. Twenty-one cities have a wait for 202 housing of six months or less.

For public housing the average waiting list is 23.9 months. Fourteen cities have a wait of 36 months or more for public housing, with a 10-year wait in Washington, D.C., and 106 months in Mankato, Minnesota. Seventeen cities have a waiting list of six months or less for public housing.

Housing Development Action Grants

Forty-one of the survey cities are currently planning a total of 91 projects for Housing Development Action Grants. These projects would add over 8,992 units to the existing housing stock, with 46.9 percent of them, on average, for low income people.

State Restrictions

Only four cities expect their state governments to provide funds to compensate for the proposed federal moratorium on new units of assisted housing.

LOAN PROGRAMS

The effect of the elimination of Section 312 rehabilitation loans, Section 108 loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration would be adverse in 44.2 percent of the cities responding to the survey, and very adverse in another 39.1 percent. While 23 cities indicate the elimination of these programs would have no effect, only five of these cities -- Cedar Rapids, Columbus, Dallas, Iowa City and Sunrise, Florida -- have used any of the loan programs in the last year.

Comments by the cities responding show the varied uses and the importance of these loan programs:

- Akron: "Housing rehabilitation, business loans and economic development will be severely cut back. This will have a strong negative effect on the city."

- Asheville, North Carolina: "Over 125 homeowners have been assisted with Section 312 funds over recent years. The SBA 503 program has assisted five local businesses; three loans are pending."

- Beaumont: "We use them all and rely on them."

- East Chicago: "It would curtail the city's ability to assist owners in providing standard housing for low and moderate income residents.

- Erie: "Housing rehabilitation and small business would be drastically affected."

- Flint: "Small business expansion and new business start-ups would virtually cease in non high-tech areas."

- Grand Forks: "EDA has made it possible to develop the foreign trade zone. Section 312 cuts would impact central business district redevelopment. In these days of tight money SBA is a must. All of these programs create jobs, add to the tax base and are cost effective."

- Hartford: "If SBA loans are eliminated we would not be able to run our matching program....The number of loans the City makes will be reduced as the monetary value of the loans increases."

- Jamestown: "We have heavily utilized the EDA programs to attempt to rebuild our infrastructure and would definitely be hurt by EDA's proposed elimination. Many small business deals would also not happen if SBA were totally eliminated."

- Kansas City, MO: "Kansas City is in the midst of a revitalization program that relies on these loans. It would be extremely unlikely that the private sector could justify making loans in these areas without guarantees. Also, loss of SBA loans would be extremely harmful to economic development."

- Lubbock: "There is a critical need for this type of assistance for low and moderate income people in Lubbock."

- New Orleans: "These programs are critical to housing and economic development activity in the inner city. The city loses its ability to leverage private financing. The City-wide Development Corporation reports over $4 million SBA loans leverage over $7 million in private financing with a job impact of 1,107 jobs. EDA funds of $1.5 million generated over $4.5 million in private money for 405 jobs.

- Reno: "If SBA loans are eliminated, it will adversely affect the tax base and eliminate new jobs and business opportunities."

- Syracuse: "Economic growth would virtually cease."

Section 312

Over half (57.5 percent) of the cities responding to the survey used Section 312 loans last year. These loans came to $33.9 million and involved 3,567 housing units.

Section 108

Section 108 loan guarantees were used by 17.5 percent of the cities during FY84. Nineteen cities were able to guarantee $204 million in loans with the program.

Economic Development Administration

Loans or grants from the Economic Development Administration went to 44.4 percent of the responding cities during FY84. These came to over $38 million.

State Restrictions

Only two states expect their state governments to provide funds to compensate for the proposed elimination of federal loan programs.

EMPLOYMENT & TRAINING

Over 37,000 young people would be forced from jobs programs this summer in 77 of the survey cities because of the proposed recession of $100 million from the 1985 summer youth employment program. All of the proposed cuts in the Job Training Partnership Act -- elimination of the Job Corps and cuts in the summer youth employment and the dislocated worker programs -- would have an adverse effect on 45 percent of the cities responding, and a very adverse effect on another 35.2 percent. Twenty-four cities indicate the proposals would have no effect on their cities. All but six of these cities, however, are in large area consortiums and do not administer Job Training Partnership Act programs directly.

Several cities say the proposed cuts come on top of reductions already sustained in employment and training programs. Charleston officials point out that "a 10 percent decline has already occurred in the number of youth we can help. Continued reductions will only serve to put more youth on the street since alternate employment is not available." Cedar Rapids has the "same chronic unemployment as four years ago, with only one-fifth of the revenues available."

Peoria officials explain why the cuts would be very adverse for their city: "We are currently suffering 14 percent unemployment in real terms. Our economy is in an industry transition -- from heavy manufacturing to service type jobs. This requires more job training and relocation services to improve employment in the area." Akron officials are concerned that they will "not serve as many youth that work in the summer, generating income for their education. We have a large number of dislocated workers who will not be able to be served. These are people who won't be served by other programs." In Kansas City, Missouri, "fewer disadvantaged individuals who lack the training and skills necessary to enter the labor force will receive the training to enable them to obtain gainful employment."

A number of cities comment on the particular effect the proposed cuts would have on young people:

- Grand Forks: "The summer youth program has been very helpful. Young people have been used to cleanup a blighted area along the edge of the central business district."

- Flint: "No other program serves the 14 and 15 year olds included in the employment development service portion of the JTPA summer youth employment program."

- East Chicago: "There are no jobs available for the youth as industry is laying off more and more workers."

- Reno: "Proposed cuts in Job Corps and the summer youth employment program will not allow the city to serve disadvantaged youth properly in this area. There will be more youths on the streets with no positive force in their lives."

- Louisville: "Youth unemployment is at extraordinary proportions. Unemployment relates to crime, vandalism, arson and suicide."

- Mobile: "Cuts will probably result in a crime increase."

Job Corps

Since Job Corps sites are not administered by cities, many of those responding are unable to estimate the number of young people in their city who are served by the program. Forty-six cities did have this information, however, and they estimate that nearly 16,000 young people from those cities are served by the program. Alternative services for the young people in Job Corps would be available in just under one-third (31.9 percent) of the cities responding. In over two-thirds of the cities, such services would not be available.

Many of the comments on the effect that the elimination of Job Corps would have on the young people it serves reflect the fact that the program serves an often troubled population:

- Evansville: "They would turn to other programs which are also being cut back or they would become offenders again. (Job Corps = exoffenders)"

- Columbus: "The program serves delinquents and 'pre-delinquents.' Some would end up in the correctional system."

- Milwaukee: "Social and income maintenance costs would increase."

- Hartford: Elimination of the program "will increase unemployment and our welfare caseload."

- Jamestown: "They will end up in the adult criminal justice system or social services child protection."

- Tacoma: "Job Corps represents the last stop for many of these youths. Jobs Corps is the only thing that keeps them away from an environment that has prevented them from being successful."

Summer Youth Employment

Proposed cuts in the summer youth employment program would force 37,205 young people in 77 of the survey cities from the program this summer and 39,060 young people in 73 cities from the program next summer. In over four out of five cities (84 percent) alternative services for these young people will not be available.

In commenting on what would happen to the young people forced from the program, several cities highlight the importance of the program to a low income family's income and to the young person's education. Allentown points out that the "loss of income could jeopardize education." Seattle officials explain that the city "will have no structured program for them and they probably won't be able to get jobs for the summer. For some children this is serious because they need the money earned in the summer to help pay school costs." Cedar Falls expects that low income families will be particularly hard hit. Iowa City comments that "many of them support themselves or their families."

Others are concerned about the lack of constructive activity. In Columbus "many will end up in 'unstructured environments' -- the city would attempt to attract these youths to recreational programs." Miami and Muncie both comment that young people forced from the summer jobs program will be idle. Chicago officials are concerned that "they would be enticed to join gangs since they would have nothing else to do."

State Restrictions

Only three cities expect their state governments to provide funds to compensate for the proposed federal cuts in employment and training programs.

HEALTH

Based on survey responses, proposed cuts in federal health outlays in FY86 will negatively affect the nation's cities and the people who live in them. From Louisville to Lubbock, from Tacoma to East Orange, from Peoria to Caguas, there is deep concern over the Administration's plans to reduce funding for Medicaid, health block grants and categorical health programs. There is fear that the incidence of infant mortality, childhood diseases, tuberculosis and sexually transmitted diseases will rise -- an effective demonstration of failing health. There is fear that people in need of health care will not receive it. And there is concern that costs of health care will be shifted to local governments.

Eighty percent of all respondent cities with local health departments said they expect an increase in local health costs as a result of such cost shifting.

Medicaid

Seventy percent of cities surveyed said the Administration's plans to cap Medicaid payments to the states will produce reductions in locally available health services or in the number of people who receive care. Sixty-five percent of the cities project cuts in both -- quantity of health services and numbers of people served.

While some cities do not expect Medicaid cuts to directly impact local government, many of them believe there will be an indirect impact. Grand Forks, for instance, said a ripple effect would occur, with other local agencies feeling the pinch. One Pennsylvania city suggested the proposed Medicaid cuts would further reduce the already small number of physicians willing to accept Medicaid patients.

Incidence of Disease

The survey asked cities to indicate if they anticipated an increase in infant mortality, childhood diseases, tuberculosis or sexually transmitted diseases as a result of health funding cuts. About 69 percent foresee a rise in at least one of these categories. More than half said there would be an increase in all four health indicators, meaning a worsening in the city's health status:

- Sexually transmitted disease rates will increase in 67 percent of the cities
- Childhood disease rates will increase in 64 percent
- Infant mortality rates will increase in 62 percent
- Tuberculosis rates will increase in 60 percent

State Restorations

Fewer than four percent of the cities surveyed said they expect the state to provide funding to compensate for any portion of anticipated federal funding cut-backs. In all but two cases, the cities estimated the state restoration as too small to calculate.

CITY FISCAL CONDITIONS

The vast majority of responding cities say they raised revenues or reduced services last year to achieve a balanced budget. A total of 91 percent of the cities said they were forced to take some action. Thus, many painful budget decisions have already been made by cities -- decisions which continue to affect their revenue and expenditure patterns in the current fiscal year.

Of the total number of cities responding

- 49 percent said they raised user fees last year
- 41 percent laid off workers or instituted hiring freezes
- 28 percent enacted property tax increases
- 40 percent were forced to cut services
- 11 percent enacted other tax increases
- 20 percent instituted other changes.

These other changes include speedups of tax collections, cancelling large purchases, fund transfers and a myriad of smaller tax increases.

For this fiscal year, most cities say they are currently predicting a balanced budget. Cities are required by law to balance their budgets. Yet, city expectations of budget balances are contingent on continuing federal aid. Otherwise, additional service cuts or revenue increases will have to be made by these cities soon.

Many of the cities now face a more difficult and more uncertain future because their fiscal years differ from the fiscal year of the federal government. For example, a large number of cities have fiscal years extending from January 1 to December 30, which means their FY85 budgets could be substantially affected by FY86 federal budget cuts which would be effective on October 1.

Of the 22 percent of the survey cities forecasting a budget surplus this fiscal year two out of three have already committed the funds to ongoing services or to the pay-back of prior year deficits. On average, these surpluses comprise 4.3 percent of total city revenues.

Nine percent of the cities responding must take action to avert a deficit this year. On average, the deficits to be overcome represent 8.5 percent of the total city revenues.

STATE AID

The overwhelming majority of cities -- a total of 85 percent -- say they expect no additional funds whatsoever from their states to compensate for the federal budget cuts. Thirteen percent expect their state to provide some funds.

In general, the percentages of cities expecting additional state aid in specific program areas are quite low: Eight percent of the cities expect additional state aid for transportation, 6 percent for health, 4 percent for assisted housing, 4 percent for wastewater treatment and still lower percentages for Community Development Block Grants, Urban Development Action Grants, employment and training and loan programs.

Very few cities could estimate what percent of the federal program cuts might be made up by the states. Those who did predicted very low percentages in virtually all program areas.

There was little correlation of city expectations of additional aid within a state -- that is, while one city in a state would expect additional state aid to compensate for transit (or other) losses, other cities in that state usually would not.

The percentage of cities expecting state aid to compensate for the elimination of general revenue sharing (reported in the "General Revenue Sharing" chapter of this report) was still lower. A total of 94 percent of the cities said they did not expect any additional state help whatsoever to compensate for the loss of revenue sharing.

CITY REVENUES

Fifty-one percent of the cities responding to the Conference of Mayors survey said they would raise local revenues to compensate for some of the proposed federal budget cuts. (For general revenue sharing the percentage is much higher -- 68 percent). Another 49 percent said they would not, either because they are constrained from doing so by state law, have high tax burdens already, or because of the unlikelihood of getting approval from voters, city councils or state legislators. In addition, some of these cities said they would be forced to borrow additional funds in the bond market or take other actions to adjust. Only 3 percent said they would be able to absorb the cuts in some relatively painless way.

Because this was a tax question dealing only with whether cities intend to compensate for the federal budget cuts by raising their own revenues, it does not specifically cover any of the other mechanisms they may use to adjust to such cuts -- service cuts, layoffs, etc.

The major revenue increases cited by respondents were predominantly user fees and property tax increases. To a lesser extent, cities predicted other adjustments, sales tax increases, income tax hikes and other actions.

The table below shows the percentages of the cities that said they would raise specific types of taxes. As can be seen, of those who said they would increases taxes, 53 percent said they would increase user fees for wastewater treatment, and 45 percent would increase them public transit. These programs lend themselves fairly well to user fees, while other programs do not. Of those saying they would raise other taxes, 26 percent said they would increase property taxes to compensate for part of the loss of Community Development Block Grants, 20 percent to compensate for health, 19 percent for transit, 14 percent for wastewater treatment. Most of the cities responding cited more than one revenue increase that they would be forced to make. Consequently, the percentage totals add to more than 100 percent.

Percent of Cities Intending to Raise Taxes to Compensate for Federal Cuts

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing	12*	3*	1*	4*	4*
Community Development Block Grant	26	4	3	4	9
Urban Development Block Grant	8	0	0	0	4
Loan Programs	7	0	0	3	4
Employment & Training	9	0	0	4	1
Health	20	1	0	18	7
Public Transit	19	7	0	45	5
Wastewater Treatment	14	1	0	53	9
Other	16	3	3	14	7

TREASURY DEPARTMENT TAX PROPOSALS

The vast majority of cities predict major adverse consequences for their localities if some of the Treasury Department's tax proposals are adopted.

Curbs on Municipal Bonds

The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one city citing at least one project or effort which would be affected.

Negative effects were cited by

- 90 percent on economic development activities
- 55 percent on infrastructure
- 49 percent on low income housing
- 25 percent on resource recovery
- 25 percent on airports
- 18 percent on nonprofit and private hospitals
- 13 percent on other projects.

The "other" category included renovation of historic buildings and areas, neighborhood and business revitalization, single-family mortgage revenue bonds, social service programs, park development and an increase in interest costs for nearly all city projects.

Elimination of Deductibility

An overwhelming 87 percent predicted that elimination of deductibility of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or have other negative effects. These "other effects" include increased pressure to reduce taxes, a slowdown in economic development, increased condo conversions and a shift from taxes to user fees. Only nine percent of the sample said there would be no effect and another two percent said they did not yet know the precise effects.

Elimination of Tax Credits

A sizeable majority of the cities also predict that elimination of rehabilitation and historic tax credits -- as proposed by the Treasury Department -- would be adverse or very adverse for their cities. A total of 80 percent say the results would be adverse or very adverse; 20 percent say there would be virtually no effect.

Most of the cities had some knowledge of public-private projects using the rehabilitation tax credits -- those where there is some investment or participation by the city. Few, were however, aware of the private-only projects which might be using the credits.

Elimination of Charitable Deductions

A total of 85 percent of the cities said that the availability of private and nonprofit social services would suffer as a result of the Treasury plan to curb charitable contributions.

APPENDIX A

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS, MONDAY, FEBRUARY 25, 1985 TO THE U.S. CONFERENCE OF MAYORS

Do you wish the information in this questionnaire held confidential?
___Yes ___No

CITY______________________

THE IMPACT OF THE PROPOSED FY86 BUDGET ON CITIES

1. General Revenue Sharing

a) The Administration's budget proposes to eliminate General Revenue Sharing in FY86. What percentage of your city's total revenues including all intergovernmental grants is accounted for by the revenue sharing program?__________%

b) If revenue sharing is eliminated, what is your city's likely course of action? Check the appropriate items below.

Cuts in Services
___Public safety (police and fire)
___Human services
___Sanitation
___Capital improvements
___Health services
___Other (explain)________________________________
___None

Tax Increases
___Property taxes
___Income taxes
___User fees
___Sales taxes
___Other tax hikes (explain)________________________

Other Actions (explain)____________________________
____
____

c) Do you expect your state government will make up for any of the cut in revenue sharing funds? ___Yes ___No
If yes, what percentage?__________________%

2. Community Development Block Grant

a) The Administration's FY86 budget proposes a 10 percent cut in CDBG and a change in the entitlement cities/small cities ratio from 70/30 to 60/40. This translates into a proposed 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. What will be the effect of this cut on community development in your city?
___None ___Adverse ___Very Adverse

Explain____

____

____

b) Show the percentage of your CDBG that goes into each of the following areas.

Economic Development________________%

Housing Assistance________________%

Social Services________________%

Public Works/Infrastructure________________%

Other________________%

c) Which of the areas listed above would most likely be cut in your city as a result of the federal cut?____________

____

3. **Urban Development Action Grants**

a) The federal budget proposes to eliminate UDAGs beginning in FY86. What would be the effect of the elimination of the program in your city?

___None ___Adverse ___Very Adverse

Explain____

____

____

b) How many projects eligible for UDAG funding is your city now applying for or planning to apply for? ______

c) How many dollars in the following categories do these projects involve?

UDAG $____________________

Other public $________________

Private $____________________

d) How many jobs would these projects create in your city?

____

e) How many of these projects do you expect to go ahead without UDAG funding?______________________________

4. **Public Transit**

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, which would include a total elimination of federal operating assistance and a rise in the local matching share from 20 to 30 percent. The combined effect of this proposal would mean a loss of most of the federal capital assistance as well as all of the transit operating assistance to your urban area. If this budget were approved:

a) Would the fares charged by your transit system increase?
___Yes ___No If yes, by what percent?__________%

b) Would there be a reduction in the number of transit vehicles in service? ___Yes ___No

c) Would there be a reduction in routes? ___Yes ___No

d) Overall, what percentage of transit service would be reduced? ________% reduction of service

e) Would the transit system in your city be threatened with a shutdown? ___Yes ___No

5. **Wastewater Treatment Construction Grants**

The proposed FY86 budget calls for a four year phaseout of wastewater treatment construction grants, with a likely schedule to be a 25 percent reduction in each of the next four years. During those four years, federal funding would only be available for completing existing projects. Beginning in FY86 no funding would be available for new projects. If this budget were enacted:

a) Would your city be able to complete existing wastewater treatment facilities in four years, given a 25 percent reduction in each of the next four years? ___Yes ___No

b) Is your city operating under a consent decree, administrative order or other binding contractual agreement to comply with FY88 clean water standards?
___Yes ___No

c) In the absence of federal funding, will your city be able to meet these obligations without a significant increase in taxes or user fees? ___Yes ___No
Estimate the percent of tax or user fee increase required
______________%

d) Would the inability to complete an existing project or construct a new project have a negative impact on (check if relevant)
___Housing
___Community development
___Economic development
___Jobs
___Environmental quality

6. **Assisted Housing**

a) The FY86 budget proposes a moratorium on all new units of assisted housing. What will be the effect of this moratorium on the availability of housing affordable by low income people in your city?
___None ___Adverse ___Very Adverse

Explain ____

____

____

b) Funds for the modernization of public housing, other than for emergencies, would be eliminated for one year. What would be the effect of this action on public housing in your city?

___None ___Adverse ___Very Adverse

c) What is the current waiting list for the following types of assisted housing in your city?

Section 8______________months
Section 202____________months
Public Housing_________months
What will be the effect of the proposed moratorium on these waiting lists? ___None ___They will be lengthened.

d) How many units did your city receive in each of the following categories of assisted housing in FY84?

Section 8______________________
Section 202____________________
Public Housing_________________
Rental Rehabilitation__________

e) How many projects eligible for Housing Development Action Grants is your city now applying for or planning to apply for?____
How many total units are involved?____________________
What percentage of these units are for low income people?
_________________________________%

7. **Loan Programs (Section 312, Section 108, EDA, SBA)**

a) The FY86 budget proposes to eliminate Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration. What would be the effect on your city of the elimination of these programs?

___None ___Adverse ___Very Adverse

Explain ____

____

____

b) Did your city use the Section 312 loan program last year?

___Yes ___No
If yes, how much money and how many units were involved?
$____________ ________________units

c) Did your city use Section 108 loan guarantees during FY84?
___Yes ___No
If yes, how much money was guaranteed by this program in your city last year? $____________

d) Did your city receive funds from the Economic Development Administration during FY84? ___Yes ___No
If yes, how much? $________________________

8. **Employment and Training**

a) The FY86 budget proposes to eliminate the Jobs Corps, to cut the summer youth employment program by $100 million (12 percent) in FY85 and by another $60 million (19.4 percent in total) in FY86, and to cut the dislocated worker program by $120 million in FY85 (51 percent) and by another $15 million (57 percent in total) in FY86. What will be the effect of these cuts on your city?
___None ___Adverse ___Very Adverse

Explain ____
____
____

b) How many young people in your city are served by the Jobs Corps?_______________
Are alternative services available to them in your city?
___Yes ___No
What will happen to these young people if the program is eliminated?____
____
____

c) How many young people in your city will be forced from the summer youth employment program if it is cut this summer?
___________ next summer?_______________
Are other jobs programs available for them? ___Yes ___No
What will happen to these young people?________________
____
____

9. **Health**

a) The FY86 budget proposes to cut $1.1 billion from the Medicaid program, capping federal matching payments to the states. Do you anticipate a reduction in services or a reduction in the number of people served as a result? (Check if appropriate)
Services cut ___Yes ___No
People cut ___Yes ___No

b) The FY86 budget proposes to freeze health block grants (maternal and child health, prevention, primary care, and alcohol, drug abuse and mental health) at FY85 levels and to cut various public health programs such as immunization, tuberculosis control, and sexually transmitted disease control. Do you expect the incidence of infant mortality, childhood diseases, tuberculosis, or sexually transmitted diseases to rise as a result?
Infant mortality ___Yes ___No
Child diseases ___Yes ___No
Tuberculosis ___Yes ___No
Sexually transmitted diseases ___Yes ___No

c) Does your city operate a local health department?
___Yes ___No
If yes, will it experience an increase in local costs as a result of a shifting of costs and responsibilities for services from other local providers? ___Yes ___No

10. Will your city government be able to raise local revenues to compensate for any of the federal cuts described in questions one through nine? ___Yes ___No

If yes, check below for which program areas and by which kind of tax your city would raise local revenues

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing					
CDBG					
UDAG					
Loan Programs					
Employ. & Train.					
Health					
Public Transit					
Wastewater Treat.					
Other Programs					

11. Do you expect your state government to provide funds to your city to compensate for the cuts? ___Yes ___No

If yes, please check those program areas for which you expect your state to provide funds and indicate the percentage of the cut you expect the state to restore.
___Assisted Housing_______________%
___CDBG_______________%
___UDAG_______________%
___Loan Programs_______________%
___Employment and Training_______________%
___Health_______________%
___Transportation_______________%
___Wastewater Treatment_______________%

CITY____________________

12. Surplus/Deficit

a) For the current fiscal year are you now facing an
___operating budget deficit,
___operating budget surplus, or
___balanced budget?

b) If you are facing a surplus or a deficit, what percent of total revenues does this represent?______%

c) If you expect a surplus this year, is this surplus already committed to ongoing services? ___Yes ___No

d) What is your city's fiscal year?______________________

e) Check which budget adjustment, if any, your city made in the last fiscal year to achieve a balanced budget.
___Property tax increases
___User fee increases
___Income tax increases
___Other tax hikes
___Service cutbacks
___Hiring freezes or layoffs
___Other (explain)________________________________

13. Tax Proposals

The Treasury Department has proposed a tax plan which proposes to end the tax exemption of all private purpose bonds, to curtail the charitable contribution deduction, to eliminate all rehabilitation and historic preservation tax credits and to eliminate the deductability of all state and local taxes, including property taxes.

a) Check the types of projects that would be jeopardized in your city if the exemption for private purpose bonds is terminated.
___Infrastructure projects
___Resource recovery
___Airports
___Ports
___Low income housing
___Hospitals
___Economic development activities
___Other (explain)________________________________

b) What would be the effect in your city of terminating all rehabilitation and historic tax credits?
___None ___Adverse ___Very Adverse
How many projects are currently pending in your city for which you plan to make use of these tax credits? ________

PAGE 8 CITY____________________

c) Will social services in your city be adversely affected by Treasury's plan to curtail the charitable contribution deduction?

___Yes ___No

d) What do you expect will be the result in your city if the current deduction for state and local taxes were eliminated?

___More difficulty raising local taxes
___Adverse effect on real estate values
___Other effect (explain)____________________
___NO effect

PERSON COMPLETING QUESTIONNAIRE
Name____________________
Title____________________
Agency____________________
Address____________________
Telephone ( )____________________

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS MONDAY, FEBRUARY 25, 1985 TO:

U.S. CONFERENCE OF MAYORS
1620 EYE STREET, N.W.
WASHINGTON, D.C. 20006

THANK YOU!

APPENDIX B: SURVEY RESPONSES FROM FIFTY SELECTED CITIES

	GENERAL REVENUE SHARING		CDBG	UDAG	TRANSIT
CITY NAME	Service Cuts	Tax Increases	Areas Cut	Effect of Program Elimination	Effect of Cuts. Will Fares Increase?
	A-Public Safety B-Human Services C-Sanitation D-Capital Improvement E-Health Services	A-Property Taxes B-Income C-User Fees D-Sales	A-Economic Develop B-Housing Services C-Social Serivices D-Public Works/ Infrastructure		
Annapolis, MD	A,D	A,C	B,D	none	yes
Ashland, KY	D	C	A,B,C,D	adverse	yes
Asheville, NC	D	A,C	B	very adverse	yes
Aurora, CO	--	--	A,B,C,D	none	--
Birmingham, AL	B,D	--	B	very adverse	yes
Caguas, PR	--	--	C,D	very adverse	--
Cambridge, MA	--	A	B	adverse	yes
Cedar Rapids, IA	--	A	B	none	yes
Charleston, SC	A,C,D	A,C	A,B	very adverse	yes
Cheyenne, WY	D	--	A	none	no
Chicago, IL	B,C,E	--	A,B,C,D	adverse	yes
Clearwater, FL	--	A,C	A,B	--	--
Columbus, OH	--	C	A,B,C,D	none	yes
East Orange, NJ	A,B,D	A	A,B	adverse	yes
Erie, PA	A	A	A,B,C,D	very adverse	yes
Evansville, IL	A,B,E	A,B	A,B,C,D	very adverse	yes
Flint, MI	A	A	B	very adverse	yes
Fresno, CA	D	--	--	adverse	yes
Greenville, SC	D	A,C	--	adverse	yes
Hartford, CT	--	A	--	very adverse	yes
Hermitage, PA	D	A	B	none	--
Iowa City, IA	B,D	A,C	B	none	yes
Jamestown, NY	A,B	A,C	A,B,C,D	very adverse	yes
Juneau, AK	--	A,C	--	--	no
Lafayette, IN	A,D,E	A,C	A,D	adverse	yes

CITY NAME	GENERAL REVENUE SHARING		CDBG	UDAG	TRANSIT
	Service Cuts	Tax Increases	Areas Cut	Effect of Program Elimination	Effect of Cuts. Will Fares Increase?
	A-Public Safety B-Human Services C-Sanitation D-Capital Improvement E-Health Services	A-Property Taxes B-Income C-User Fees D-Sales	A-Economic Develop B-Housing Services C-Social Serivices D-Public Works/ Infrastructure		
Louisville, KY	C,D	--	B,D	adverse	yes
Lubbock, TX	D	A,C	B,C	very adverse	yes
Madison, WI	D	A,C	A,B	adverse	yes
Mankato, MN	A,D	A,C	--	none	yes
Miami, FL	A,B,C	--	C	very adverse	--
Milwaukee, WI	A,C,E	A	A,B,C,D	very adverse	yes
Mobile, AL	D,E	--	B	none	yes
New Orleans, LA	--	--	A,B,C,D	adverse	no
Norfolk, VA	B,C,D,E	A,C	B	adverse	no
Oak Park, MI	A,B	--	A,B,C,D	very adverse	yes
Orem, UT	A,D	A	B,C	none	yes
Pawtucket, RI	A,C,D	A	A,B,C,D	adverse	yes
Peoria, IL	A,D	--	B,C	very adverse	yes
Rochester, MI	D	A	A,C	none	yes
St. Louis, MO	--	--	B	very adverse	yes
San Francisco, CA	B,D	--	A,B,C,D	very adverse	no
Seattle, WA	--	--	--	adverse	yes
South Bend, IN	--	A	A,B,C,D	adverse	yes
Spokane, WA	A,B,D	C	B,C	none	yes
Syracuse, NY	--	A	A,B,C	very adverse	--
Tacoma, WA	A,B,C	--	C	adverse	yes
Tempe, AZ	--	--	B	none	yes
Toledo, OH	B,C,D,F	--	B,C	very adverse	--
Trenton, NJ	A	A	B,C	very adverse	yes
Tuscon, AZ	--	--	A,B,C	adverse	yes

CITY NAME	WASTEWATER TREATMENT	HOUSING	LOANS	EMPLOYMENT & TRAINING	HEALTH
	Able to complete existing projects in 4 years?	Moratorium. Will waiting list for new units be lengthened?	Effect of elimination of loan programs (SBA, Sec. 132, 108, EPA)	Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	Will services be cut due to Medicaid cut?
Annapolis, MD	no	yes	adverse	adverse	--
Ashland, KY	no	yes	very adverse	none	--
Asheville, NC	no	yes	very adverse	--	--
Aurora, CO	--	yes	adverse	adverse	yes
Birmingham, AL	--	yes	adverse	very adverse	no
Caguas, PR	no	yes	very adverse	--	--
Cambridge, MA	--	yes	very adverse	very adverse	yes
Cedar Rapids, IA	--	yes	none	very adverse	--
Charleston, SC	yes	yes	very adverse	very adverse	--
Cheyenne, WY	yes	--	none	none	--
Chicago, IL	--	--	adverse	--	--
Clearwater, FL	yes	--	adverse	none	--
Columbus, OH	yes	no	none	--	no
East Orange, NJ	yes	yes	very adverse	adverse	yes
Erie, PA	--	yes	adverse	very adverse	yes
Evansville, IL	yes	yes	very adverse	very adverse	yes
Flint, MI	yes	yes	very adverse	very adverse	yes
Fresno, CA	yes	--	--	adverse	--
Greenville, SC	--	--	adverse	--	--
Hartford, CT	--	yes	very adverse	very adverse	yes
Hermitage, PA	yes	--	adverse	--	--
Iowa City, IA	no	yes	none	adverse	--
Jamestown, NY	no	yes	very adverse	adverse	yes
Juneau, AK	yes	--	none	--	no
Lafayette, IN	no	yes	none	very adverse	yes

	WASTEWATER TREATMENT	HOUSING	LOANS	EMPLOYMENT & TRAINING	HEALTH
CITY NAME	Able to complete existing projects in 4 years?	Moratorium. Will waiting list for new units be lengthened?	Effect of elimination of loan programs (SBA, Sec. 132, 108, EDA)	Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	Will services be cut due to Medicaid cut?
Louisville, KY	no	yes	very adverse	adverse	yes
Lubbock, TX	yes	yes	very adverse	adverse	yes
Madison, WI	yes	yes	adverse	adverse	yes
Mankato, MN	yes	yes	adverse	none	--
Miami, FL	--	yes	very adverse	very adverse	yes
Milwaukee, WI	yes	--	very adverse	adverse	yes
Mobile, AL	yes	yes	adverse	adverse	--
New Orleans, LA	no	yes	very adverse	adverse	yes
Norfolk, VA	yes	yes	very adverse	adverse	yes
Oak Park, MI	no	yes	very adverse	very adverse	yes
Orem, UT	yes	--	--	adverse	yes
Pawtucket, RI	no	yes	very adverse	adverse	yes
Peoria, IL	no	--	very adverse	very adverse	yes
Rochester, MI	yes	--	adverse	none	--
St. Louis, MO	no	--	very adverse	very adverse	--
San Francisco, CA	no	yes	adverse	adverse	no
Seattle, WA	yes	--	very adverse	very adverse	yes
South Bend, IN	yes	yes	adverse	very adverse	yes
Spokane, WA	yes	yes	adverse	adverse	yes
Syracuse, NY	--	yes	very adverse	very adverse	--
Tacoma, WA	yes	yes	very adverse	adverse	yes
Tempe, AZ	--	yes	--	--	--
Toledo, OH	--	--	very adverse	--	--
Trenton, NJ	no	yes	very adverse	very adverse	yes
Tuscon, AZ	yes	yes	adverse	very adverse	--

CITY NAME	LOCAL REVENUE Can local revenue be raised to compensate for federal cuts?	STATE ASSISTANCE Will state provide funds to compensate for federal cuts?	PAST YEAR BUDGET ADJUSTMENTS A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Annapolis, MD	yes	no	A,B	A,B,G	A,B
Ashland, KY	yes	no	E,F	A,F,G	A
Asheville, NC	no	no	B,D	A,C,E,G	A,B
Aurora, CO	no	no	--	--	--
Birmingham, AL	no	no	--	F,G	C
Caguas, PR	no	yes	E,F	--	--
Cambridge, MA	no	no	A	G	A,B
Cedar Rapids, IA	yes	--	--	A,C	A
Charleston, SC	no	no	A,B	A,C,D,E,F,G	A,B
Cheyenne, WY	no	no	F	--	C
Chicago, IL	no	no	B,D,F	A,C,E,G	A
Clearwater, FL	yes	no	A,B	G	C
Columbus, OH	yes	yes	--	G	C
East Orange, NJ	yes	no	A	A	B
Erie, PA	no	no	A,F	--	A,B
Evansville, IL	no	no	A	G	A
Flint, MI	yes	yes	C	A,C,E,G	C
Fresno, CA	no	no	--	A,C,E,F,G	B
Greenville, SC	yes	no	--	A	A
Hartford, CT	no	no	--	G	A,B
Hermitage, PA	--	no	C	--	A,B
Iowa City, IA	yes	no	A,B	--	--
Jamestown, NY	no	no	A,B	G	A,B
Juneau, AK	yes	yes	A,B	A,F	C
Lafayette, IN	yes	no	A,B,C	A,G	A,B

CITY NAME	LOCAL REVENUE Can local revenue be raised to compensate for federal cuts?	STATE ASSISTANCE Will state provide funds to compensate for federal cuts?	PAST YEAR BUDGET ADJUSTMENTS A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Louisville, KY	no	no	--	E	--
Lubbock, TX	no	no	--	C,G	B
Madison, WI	yes	no	A,B,E,F	A,B,E,G	A
Mankato, MN	yes	yes	A,B	G	A
Miami, FL	no	no	A,B,F	A,G	A
Milwaukee, WI	no	no	A,B	E,G	A,B
Mobile, AL	no	no	D	G	A,B
New Orleans, LA	yes	no	B,D,E,F	A,B,C,D,E,F,G	A,B
Norfolk, VA	no	no	B	C,F,G	A,B
Oak Park, MI	no	no	F	A,G	A,B
Orem, UT	--	no	A,B	A,B,E,F,G	A,B
Pawtucket, RI	no	yes	A	E,G	A
Peoria, IL	no	no	--	A,G	A
Rochester, MI	yes	no	A	F,G	A,B
St. Louis, MO	no	no	F	A,B,C,E,G	A
San Francisco, CA	no	no	--	E,G	C
Seattle, WA	no	no	B	A,B,E,F,G	A
South Bend, IN	yes	no	A,E,F	A,B,C,G	A,B
Spokane, WA	yes	no	B,E	B,G	A
Syracuse, NY	no	no	A,F	E,G	A
Tacoma, WA	yes	no	E,F	G	A,B
Tempe, AZ	no	no	A,B	E,G	A
Toledo, OH	no	no	B,C	A,B,C,D,E,G	A,B
Trenton, NJ	yes	yes	A,E,F	E	C
Tuscon, AZ	--	no	A,B	E,G	B

APPENDIX C: CITIES RESPONDING TO THE SURVEY

CITY	POPULATION
Akron, OH	231,659
Alameda, CA	63,852
Allentown, PA	104,324
Annapolis, MD.	31,740
Anchorage, AK	194,675
Ann Arbor, MI	104,880
Arlington, TX	182,975
Asheville, NC	53,281
Ashland, KY	27,064
Aurora, CO	184,372
Baton Rouge, LA	361,572
Beaumont, TX	123,477
Benton Harbor, MI	14,707
Birmingham, AL	283,239
Boston, MA	560,847
Bountiful, UT	32,877
Brooklyn Center, MN	31,230
Buena Park, CA	64,165
Caguas, PR	119,800
Cambridge, MA	95,322
Carbondale, IL	27,194
Cedar Rapids, IA	109,086
Charleston, SC	69,510
Cheyenne, WY	47,283
Chicago, IL	2,997,155
Cincinnati, OH	380,118
Clearwater, FL	85,450
Cleveland, OH	558,869
Colorado Springs, CO	231,699
Columbus, OH	570,588
Concord, CA	104,061
Corpus Christi, TX	246,081
Covington, KY	49,013
Cranston, RI	71,992
Culver City, CA	38,139
Dallas, TX	943,848
Davenport, IA	103,799
De Kalb, IL	33,099
Denton, TX	48,063
Denver, CO	505,563
Detroit, MI	1,138,717
East Chicago, IN	39,786
East Orange, NJ	77,878
Elmhurst, IL	44,251
Erie, PA	118,493
Evansville, IN	130,275
Fall River, MA	92,574
Flint, MI	154,019
Fort Wayne, IN	167,633
Fresno, CA	244,623
Gastonia, NC	47,333
Grand Forks, ND	43,765
Grand Rapids, MI	182,774
Greeley, CO	53,006
Greenville, SC	58,242
Hamilton Township, NJ	82,801
Harrisburg, PA	53,264
Hartford, CT	136,334
Hawthorne, CA	56,447
Hayward, CA	94,167
Hermitage, PA	17,540
Highland Park, IL	30,611
Honolulu, HI	781,899
Houston, TX	1,725,617
Indianapolis, IN	707,655
Inkster, MI	35,190
Iowa City, IA	50,508
Jackson, MS	204,195
Jacksonville, FL	556,370
Jamestown, NY	35,775
Jersey City, NJ	222,881
Joliet, IL	77,956
Juneau, AK	27,500
Kansas City, KS	162,211
Kansas City, MO	445,222
Kettering, OH	61,186
Kokomo, IN	47,808
Lafayette, IN	43,011
La Mirada, CA	40,986
Largo, FL	58,977
Lauderhill, FL	37,271
Los Angeles, CA	3,022,247
Louisville, KY	293,531
Lubbock, TX	176,588
Madison, WI	172,640
Mankato, MN	28,651
Mason City, IA	30,144
Memphis, TN	645,760
Miami, FL	382,726
Milwaukee, WI	631,509
Minneapolis, MN	369,161
Mobile, AL	204,586
Monroe, LA	57,597
Montebello, CA	52,929
Muncie, In	77,216
Nashua, NH	67,865

CITY	POPULATION
Natchez, MS	22,209
New Bedford, MA	98,478
New Orleans, LA	564,561
New York, NY	7,086,096
Norfolk, VA	266,874
Oak Park, IL	54,887
Oak Park, MI	31,537
Ogden City, UT	64,407
Oklahoma City, OK	427,714
Omaha, NE	328,557
Orem, UT	52,399
Paducah, KY	29,315
Parsippany-Troy Hills, NJ	49,868
Pawtucket, RI	71,204
Peoria, IL	122,261
Philadephia, PA	1,665,382
Phoenix, AZ	824,230
Pittsburgh, PA	414,936
Port Arthur, TX	61,195
Provo, UT	73,907
Reno, NV	106,748
Richmond, CA	74,676
Richmond, VA	218,237
Riverside, CA	174,023
Rochester, MN	57,855
Rockford, IL	138,334
Sacramento, CA	288,597
St. Louis, MO	437,354
St. Petersburg, FL	241,214
Salt Lake City, UT	163,859
San Antonio, TX	819,021
San Francisco, CA	691,637
San Jose, CA	659,181
San Juan, PR	522,700
Savannah, GA	145,699
Seattle, WA	490,077
Shreveport, LA	210,881
South Bend, IN	107,690
Spokane, WA	171,903
Stockton, CA	161,815
Sunrise, FL	39,681
Syracuse, NY	166,187
Tacoma, WA	161,351
Tampa, FL	276,413
Tempe, AZ	112,514
Terre Haute, IN	61,125
Toledo, OH	350,565
Topeka, KS	120,269
Torrance, CA	130,213
Trenton, NJ	92,124
Tucson, AZ	352,455
Tulsa, OK	375,300
Waltham, MA	58,200
Washington, D.C.	633,425
Waukegan, IL	67,653
West New York, NJ	39,194
Wilkes-Barre, PA	51,551
Wilmington, DE	70,195
Winston-Salem, NC	140,846
Worcester, MA	161,049
York, PA	44,619

Mr. **Morial**. In that survey, we asked what effect the elimination of the loan and grant programs in the Economic Development Administration, along with the elimination of HUD's section 312 loans and section 108 loan guarantees and the termination of the Small Business Administration and its programs, would have on cities. Over four out of every five cities responded that the effect would be adverse or very adverse. For example, officials in Jamestown, NY, responded, "We have utilized the EDA programs to attempt to rebuild our infrastructure and would definitely be hurt by EDA's proposed elimination." Grand Forks reported that EDA had made the development of a foreign trade zone possible. Beaumont, TX, officials stated, "We use them all and rely on them." Indeed, nearly one-half, 44.4 percent, of the 157 cities responding to the survey, had received loans or grants from EDA during the last fiscal year.

Since I became mayor of the city of New Orleans in May 1978, we have received over $14 million in EDA loans and grants that have been used for capital improvements, business loans and economic development planning. In no instance has the EDA participation in capital projects been more than 50 percent, and in most cases it was considerably less, leveraging considerable amounts of other public and private funds. I would like, also, to submit to you, Mr. Chairman, a list of the EDA contributions to the city of New Orleans, and ask that it be made part of the record.

Mr. **Nowak**. Without objection.

[The following was received for the record from Mr. Morial:]

EDA CONTRIBUTION TO THE CITY OF NEW ORLEANS: MAY 1978 TO PRESENT

Project or program	Purpose	Location	Funding amount
Almonaster corridor environmental impact statement.	Allow for capital improvements to take place in an environmentally safe manner.	Almonaster-Michoud industrial corridor	$70,000
Almonaster corridor area 1 sewer and roadway improvements.	Improve access and sewer systems within the Almonaster corridor.	do	2,340,400
Dwyer road construction	Provide access to a new business industrial park.	do	957,000
Canal Street sidewalks	Improved aesthetics and pedestrian flow for the city's foremost retail strip.	Downtown	1,500,000
Gallier Hall renovations	Restored a historic building owned by the city.	do	600,000
Municipal auditorium improvements.	provided improvements to a city-owned auditorium.	do	600,000
New Orleans Exhibition Hall	Built an 800,000 square feet convention facility.	do	3,500,000
Farmer's market improvements (pending approval).	Will provide for improvements to the city-owned produce market.	French Quarter (Downtown)	750,000
Freret Street improvements	Provided capital improvements to a neighborhood retail shopping strip.	Freret Street at Napoleon (uptown)	602,500
Desire Square	Built a shopping center and job traning facility in a low income neighborhood.	Desire/Florida neighborhood	1,300,000
Citywide development corporation loans.	Provides loans to new and expanding businesses.	Throughout the city	1,500,000
Economic development planning	Provides for professional economic development planning for the city.	do	(1)

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[1] Approximately $75,000 per year for 7 years or $525,000.

Mr. Morial. We now have an exhibition center, costing some $90 million. That exhibition center has contributed greatly to the second major industry in our city—tourism. We couldn't have gone forward with that project without a $3.5 million contribution by the Economic Development Administration. Similarly, EDA funds of $957,000 were used in conjunction with city, sewerage and water board and private funds to generate a total of $2.2 million for the construction of a vital access road to a new business industrial park which we have created, some 7,500 acres of heretofore unused land within our city, which will result in the creation of approximately 30,000 jobs before the end of this century in that area.

EDA projects in New Orleans have resulted from sound economic development and planning. They have ranged from neighborhood commercial revitalization to industrial developments. They have contributed to every aspect of our life and our local economy; our port, tourism, historic preservation, neighborhood stability, downtown development and industrial growth.

The programs of the Economic Development Administration and many other federal programs—general revenue sharing, urban development action grants, community development block grants, transit assistance, wastewater treatment construction grants, and employment and training programs, to name a few—are vital components of the Federal/City partnership. Because of their importance, the executive committee of the Conference of Mayors voted just over 2 weeks ago to support a freeze for at least a year on all nonmeans tested programs in the Federal budget, and to support increased revenues from measures other than the personal income tax. We feel that through this approach the Federal Government can reduce the deficit without abdicating its responsibilities to the cities or to the people who live within the cities of America. We urge this committee and Congress to take this approach in the development of a fair Federal budget.

The conference, of course, supports H.R. 376, which provides for a 3-year simple extension of the programs under the Economic Development Act. We support H.R. 10, as well. It would not only continue, but also improve upon the programs now operated by EDA, and would assist us in revitalizing our cities and their economy through the following: The construction, repair, rehabilitation and improvement of public facilities, land acquisition and site preparation; the capitalization of revolving loan funds to promote or retain small businesses—in my city, we've brought about neighborhood commercial revitalization as a result of using EDA funds to establish a community development loan package and loan program and local development corporations; and the prevention of economic dislocation and the provision of economic adjustment assistance.

It is important that the legislation recognizes the need to leverage private sector resources in conjunction with local and Federal efforts to improve the physical and economic structure of cities.

The eligibility criteria which the act would establish provides a good base by identifying communities in need and are tighter than those in the previous versions of the bill. We do urge, however, that it be made clear that funds are to be directed to those areas of the greatest need.

Finally, the Conference has long recognized the need for streamlining economic development planning and technical assistance activities. We began our effort in the city of New Orleans by developing our comprehensive economic development strategy which has been in place since 1978, and has proven extremely effective. We realize that cities must make more of an effort to understand their local economies and plan for a more aggressive economic development role. This must be done in a coordinated fashion. The bill would assist communities to develop the capabilities necessary to formulate action-oriented strategies that would guide investment of economic development resources, and we support that approach. We think it's the proper approach and we think that that demand and that pressure should be placed upon local governments so that whatever is done through this effort would be a coordinated effort and would demand that a comprehensive economic development strategy be a part of any request for EDA funding.

I thank you for the opportunity to appear before you today, and you may be assured, Mr. Chairman and members of the committee, that the Conference of Mayors stands ready to assist this committee, as well as the Congress, as you continue to endeavor to find solutions to the very troublesome and difficult problems you face over the next several weeks.

Mr. NOWAK. Thank you very much, Mayor. We have been struggling with that budget problem as it's become very evident that it's not only cyclical type of deficit that we're dealing with now, but a very heavy structural deficit. It's going to take different kinds of actions to start to solve that. As we go through all of that, one of the really basic premises that has to be kept in the forefront is that this economy, in order for us to solve this deficit, has to have tremendous growth along with whatever we do. If we go too far in reducing some of those contributors to growth, we're going to find ourselves in much deeper and much more serious problems than we could ever envision by adopting the type of budget that really stops the opportunity for growth. Any pause, however slight it may be, is going to have devastating consequences and I hope that the rest of Congress looks at it as we go through the budget problems and also the tax changes that have been proposed by the Treasury.

In all of that mix, we're looking at the EDA and other programs that you mentioned as possible freeze candidates, but, in terms, hopefully, will there be any cuts at all. I think, when you look at these programs, you're looking at a great contributor to economic development.

On the EDA Program, if you looked at the UDAG's and you looked at EDA and you looked at your ability to bond out through industrial revenue bonds, how difficult do you think it would be to substitute local tax dollars for full funding of all your economic development activities in your city and all your member cities?

Mr. MORIAL. I think that issue is addressed in a comprehensive fashion in our survey, Mr. Chairman. However, I would like to respond to your question.

Our experience has been that most cities are under severe fiscal constraints and limitations either placed upon them by State legislatures, through legislative enactment, or through constitutional limitations that are placed upon municipalities. We're at the limits of taxation in many municipalities throughout the country. Revenue generation is limited for most cities in America. In many instances, a referendum is required before any revenues can be raised. Our survey supports the fact that, if some of these programs are reduced, it would necessitate additional taxes and whatever the burdens might be there, or the levying or the introduction of a variety of user fees.

There are some jurisprudential limitations on the issue of user fees in a number of States where those State Supreme Courts have held that user fees can only be affixed in an amount sufficient to provide for the cost of the services and nothing above that. This is going back to the basic and fundamental principle that if there's going to be revenue generated, it should be through taxation and not through user fees, unless there are some tie-ins with the revenue bond situation for some kind of developments working with the private sector. For example, I cited the convention center in my city, which was a combination of packaging. The city put the land up. We had EDA money of $3.5 million. We were working with the Sheraton Corp. for a UDAG, and they were going to utilize some of the EDA money in the development of a new Sheraton Hotel. The package became so attractive that the private sector developers for that major Sheraton Hotel, which is one of their flagship hotels, didn't need the EDA funding. We were able to shift that EDA funding to the new convention center, a world-class convention center, which has stimulated, within our city over the last 4 years, five new major hotels. In addition to the EDA and UDAG grant of about $15 million, we went into the private sector and we went into the community. The citizens voted a tax to service the debt on bonds that were to be issued to make up the difference and we also got assistance from the State. I think it's a variety of resources that has to be employed.

As far as taxation is concerned, I think for many local communities that issue is practically nil. The ability to generate at the level needed is almost impossible because of the levels that the cities are at. We have a 9-cent sales tax in my city. Because of the State constitution mandating a homestead exemption in the State of Louisiana, we had our proposition 13 or our proposition 2 1/2 a long time ago. Eighty-five percent of the homeowners in my city pay no property taxes. We rest heavily upon the sales tax which has now reached the limits beyond our capacity to tax. I simply cite that as one example. It's illustrative of situations that exist in some other communities where there are tax limitations that are placed upon local governments.

Mr. NOWAK. In the interest of time, let me say to all the witnesses that we will accept your statements for the record and we will keep this record open for written statements to help us complete a total package and a complete report in the very near future so we can go to the floor with that report.

Let me now give you our ranking minority member, someone who has supported this program in the past and has certainly been a leading light in economic development in this country, Congressman Clinger from Pennsylvania.

Mr. CLINGER. Thank you very much, Mr. Chairman. Thank you, Mr. Mayor, for an excellent statement.

One of the things that has concerned us on this subcommittee is a trend that has been apparent over the last 20 years or so which has shown a decline in the amount that Governments at all levels have been investing in infrastructure; public facility maintenance, upkeep, new infrastructure. I think that the GAO has indicated that there has been a decline from over 4 percent of GNP back in 1965, to somewhere around 1.8 percent of GNP in 1982. Clearly, when we have a national problem when all of our public facilities are wearing out faster than we are replacing or repairing them. What was discovered was that the primary reduction was in the area of State and local governments. The Federal Government investments have remained relatively constant; State and local investments have declined rather precipitously.

One of the things that we were trying to do in H.R. 10 was to reverse that trend. I think we all recognize that we've got to reverse the trend which sees a constant decline in what Government is investing in our infrastructure. That was certainly one of the purposes here. To that end, we do establish the 50 percent matching grant as opposed to, in some cases under EDA, up to 90 percent grant. Is that something that you can live with?

Mr. MORIAL. I can live with that and I think the Conference of Mayors can live with that. Here again, the reason I think for the lack of investment in infrastructure at the local level also has to do with certain limitations in bonding capacity that are constitutionally mandated in many States. There are limitations tied in to the total assessed value of all property, or to a flat sum. What helped my city was to go to the private sector and request funding to match city funds. They put up $100,000 and we put up $50,000. We then engaged Peat, Marwick and Mitchell through one of our local civic groups called the Bureau of Governmental Research to do a major infrastructure study needs for us. They indicated to us that we should invest about $80 million over a 10-year period in infrastructure. We have gone forward with that program for the last 3 years. I have proposed over $150 million in bond issues for infrastructure needs for our city, the largest ever in the history of the city. Since I've been there, we've resurfaced over 300 miles of streets in the city—new infrastructure, new sidewalks—using some EDA funding with that and bond issues as well. In our downtown area, we've put all new sidewalks in our French Quarter. I think that something has to be done to make local Governments realize that they need to share in the process. I think the mayors of America are willing to do that.

There are those limitations that confront us as far as bonding capacity is concerned. We have now the capacity to go up to about $150 million more in bonding for our city. We're moving forward very aggressively on our bond program. We're going to the voters in the next few months with another $60 million bond issue. What we did was to take the bond retirement, instead of just reducing the millage. We went back to the public and requested authorization for us to go forward with additional bond issues so we could keep the millage on the property tax at a constant level. That has proven very effective for us. I think if there is some requirement then the ingenuity and the creativity of local Government can be utilized to find resources for the infrastructure needs that are so serious for most American cities. Our infrastructure is deteriorating. Even the Interstate Highway System is beginning to look terrible in America.

Mr. **Clinger**. Thank you very much. I applaud you for reversing that trend in the city of New Orleans.

Mr. **Nowak**. We'll let you go to the rally. I understand it's on the "Mobilization for a Fair Federal Budget." Since your thoughts probably correspond with ours, we want you to be there.

Mr. **Morial**. Mr. Chairman, with your permission, I would like to file for the record the statement of the National League of Cities, one of our sister organizations.

Mr. **Nowak**. Without objection, it will be incorporated in the record. I want to thank you very much for your appearance and wish you well in your rally. After that, I look forward to working along with you not only for this program, but I think for a multitude of initiatives I really do feel are absolutely necessary for continuing that partnership that has grown. Thank you very much.

Mr. **Morial**. Thank you, Mr. Chairman and members of the committee.

[Statement of the National League of Cities follows:]

STATEMENT OF THE NATIONAL LEAGUE OF CITIES ON H.R. 10, THE NATIONAL DEVELOPMENT INVESTMENT ACT

The National League of Cities (NLC) commends the efforts of Chairman Nowak, Representative Clinger and the other members of the Committee in reintroducing H.R. 10, the National Development Investment Act.

NLC strongly supported the previous economic development legislation reported by this Committee and passed overwhelmingly by the House of Representatives to continue and improve upon the programs now operated by the Economic Development Administration (EDA).

We maintain our support for the new H.R. 10. We believe this legislation will address many of the problems affecting our ability to revitalize economies of our nation's distressed communities and improve the operation and effectiveness of the federal intergovernmental system.

We continue to oppose the administration's efforts to again terminate EDA in fiscal year 1986 and its proposal to rescind $179 million of EDA's $200 million FY 1985 appropriated funds. If enacted, this proposed rescission would seriously disrupt economic development projects in progress.

The following comments represent the views of the National League of Cities on the major provisions of the bill:

DEVELOPMENT INVESTMENT ASSISTANCE GRANTS

We strongly support the provisions of the bill providing for development investment assistance grants. Building on EDA's successful experience since 1965 in responding to the unique economic circumstances of our nation's cities, these grants will improve the ability of cities to use funds for a wide range of eligible activities that combat economic distress, including: the construction, repair, rehabilitation and improvement of public facilities, land acquisition and site preparation, emergency economic adjustment, as well as the capitalization of local government revolving loan funds to assist small businesses.

In addition, we are pleased that the legislation recognizes the need to leverage private sector resources in conjunction with local and federal efforts to improve the physical and economic structure of cities. These interactions and relationships are particularly critical during this period of limited budgets and scarce public resources.

NLC believes that local officials must take the lead in fashioning a conscious and aggressive economic role for city government, including the development of a much more precise understanding of the local economy together with policy development, planning and decision-making processes in which the economic dimension of all city government actions are considered.

We in local government have made a strong commitment to giving priority attention to economic development. The provisions of H.R. 10 provide the necessary support.

Eligibility.—The bill proposes a series of economic indicators covering a wide range of economic distress conditions. A community will qualify for aid by meeting any one of the following criteria: A per capita income of 80 percent or less of the national average; an unemployment rate 1 percent above the national average for the most recent 24-month period, or a sudden economic dislocation resulting in a loss of jobs.

While NLC generally supports this approach to eligibility, we would urge the committee to ensure that, administratively, assistance is limited to those areas most in need. Broader eligibility criteria, in the context of limited funds, weakens the political acceptability of the program and robs it of widespread public support.

DEVELOPMENT INVESTMENT STRATEGY

We support the requirement that applicants for assistance must requalify for assistance each time they apply and that aid will only be provided to those who prepare and submit a development investment strategy. We believe these provisions strengthen the legislation by targeting resources to those communities that have identified their economic development goals.

The development investment strategy provides the vehicle for accomplishing these goals by requiring local governments to make use of existing economic resources and to channel growth and investment so that they or can be made viable rather than undercutting or competing with them.

INVESTMENT STRATEGY CAPACITY BUILDING

NLC has long recognized the need for streamlining economic development planning and technical assistance activities. As I mentioned earlier, our membership has realized that cities must make more of an effort to understand their local economies and plan for a more aggressive economic development role. This must be done in a coordinated fashion. The planning and investment strategy preparation authorities under H.R. 10 reinforce the need for communities to develop capabilities necessary to formulate action-oriented strategies that will guide the investment of economic development resources. NLC strongly endorses this approach.

Mr. NOWAK. Our next witness will be the Honorable Harvey Ruvin, who is the county commissioner from Dade County, FL. I believe that Dade County, FL, is a county which encompasses the city of Miami and most of the suburbs up to 163d Street to the north. You'll have to give us the definition of the "southern boundary" of your county. We welcome you. I know you'll miss the rally, but you're there in spirit.

Mr. Ruvin, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF HON. HARVEY RUVIN, COUNTY COMMISSIONER, DADE COUNTY, FL, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES [1] ON H.R. 10

Mr. Chairman and members of the subcommittee: I am Harvey Ruvin, commissioner, Dade County, Florida, and third vice-president of the National Association of Counties. It is my privilege to once again appear before this subcommittee to express our support for maintaining a strong Federal partnership with local governments in achieving national economic development objectives.

We see two driving forces at work this year as Congress scrutinizes every domestic assistance program. First, of course, is the Federal deficit. The second force is less obvious, but nevertheless powerful. And that is the underlying questioning of the role of the Federal Government in assisting State and local government.

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[1] The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are to: Improve county government; serve as the national spokesman for county government; act as a liaison between the Nation's counties and other levels of government; achieve public understanding of the role of counties in the Federal system.

Let me first address the issue of the deficit. The National Association of Counties endorses efforts to reduce the deficit. But we feel it must be done fairly. Local governments have already absorbed over $30 billion in domestic cuts since 1981. And despite the fact that a freeze on domestic spending in 1986 would translate into $3 billion loss to State and local governments, we are willing to accept our share. For this reason we can only support a funding level for the new programs outlined in a H.R. 10 equal to the appropriations for EDA programs in 1985.

The second issue—the role of the Federal Government as a partner with State and local government and more specifically its role in economic development—is one we feel warrants serious discussion.

At the local level we are the first to admit, if not boast, that we are the most effective arm of government to get things done. We have established economic development authorities; we provide tax-exempt financing; we build the infrastructure necessary to support plants and business facilities; we support the industry we have and work hard to attract new business to our communities. We are doing the job—but this does not preclude a Federal role.

We need the Federal Government to fill the gaping holes resulting from regional disparities and transition economies, and to provide an overall direction and incentive to keep jobs not just in Miami or Buffalo, but in the United States.

Our economic dilemma is difficult to describe because it is manifested at the local level in sharply contrasting ways. Nationally, 8.4 million Americans are unemployed—7.3% of our work force. Because this is a substantial decrease from our record high unemployment only two years ago, the perception is that things are okay. Perhaps this is so in certain areas and some sectors of our economy. But consider that at the local level there are sharp variations from the national averages. Pockets of chronic unemployment remain throughout the country. For example, unemployment in West Virginia remains the Nation's highest at nearly 16%. In Missouri, the statewide unemployment rate corresponds with the national rate, but rural Washington and Maries Counties hover at 20%.

Also the unemployment of certain population groups, such as blacks, hispanics, and youth remain disproportionately high. For example, in Dade County our overall unemployment rate is 7.9%, yet unemployment among blacks is estimated to be nearly 12% and among hispanics in the county, 9%.

While there is a tremendous surge in high technology and service-based industries, there are many parts of the country caught in the transition from older industries. The enormous capital investment in existing facilities and the surplus work force place tremendous stress on a community. I don't have to remind you, Mr. Chairman, of the shockwaves created by the closing of a major employer such as Bethlehem Steel in Erie County, New York. Four thousand jobs directly lost as well as thousands more in related industries.

There are global events taking place certainly beyond the control of local government. Developing nations are new sources of cheap labor. The high value of the dollar, while reflecting a good economy at home, force more costly American goods to compete with cheaper foreign products.

As a nation, we are failing to keep pace with demands for new public facilities in our growth regions and wearing out our infrastructure in established areas faster than we can replace it. One third of the Interstate Highway System is in need of repair. Nearly 45% of the bridges in this country are deficient or obsolete. Locally there are problems with insufficient water, waste treatment, roads, and bridges. The price tag by the year 2000 is estimated to be over $1.1 billion. Who can and will pay for this? County governments have had the single greatest increase in their debt since the depression—the majority of their debt has gone for education, airports, and sewage treatment. We have responded already as best we can by creating new financing mechanisms through user fees and tax increment financing.

These are national problems requiring the attention and commitment of the Federal Government.

To deal with these problems, America's counties believe that a partnership with the Federal Government must continue.

Counties will continue to assume their instrumental role. Many counties have large unincorporated areas where they undertake development activities, while others work jointly with their central cities and smaller jurisdictions—dismantling parochial interests and providing an areawide approach to economic development. Still others play a broker role or provide technical assistance to their constituent units of government.

H.R. 10 would provide a reasonable amount of Federal assistance to continue this important partnership. We believe that this legislation would enable local governments most affected by changing economic conditions to deal with the unique problems facing them.

Specifically, we support the legislation's targeting of funds to areas of high distress. In particular, we are pleased that the legislation would allow counties and cities above 50,000 population to directly apply for Federal funds regardless of whether or not they are located in a designated EDA district.

We also support the legislation's leveraging requirements. This is a highly responsible measure that ensures maximum local and private resources will be utilized to match scarce Federal dollars.

In addition, we endorse the requirement that applicants must formulate an overall development investment strategy rather than a project-by-project approach. This will promote long-term and comprehensive solutions.

One area not specifically addressed by this legislation is the emerging need for venture capital. A technology-based economy requires a critical mass of diverse and numerous light manufacturing and small business firms. To achieve this critical mass, we must be willing to finance new businesses which have little or no start-up capital. These types of firms lack capital financing generally because they are creating unproven products for new markets. The element of risk is high in this type of endeavor; but we must be open to and find ways of responsibly using public funds to encourage this type of economic growth.

Mr. Chairman, before concluding, I would like to describe how the National Development Investment Act can have a major impact in Dade County, Florida.

Several areas in northwest Dade County can be described as "pockets of distress," and in particular Liberty City, an unincorporated part of the county where the riots of May 1980 occurred. Dade County has recognized the critical link between the social and economic development of the area and we have made major revitalization plans, raising over $7 million in private seed money. One of the projects included in the plan is the development of an industrial park; however, we are lacking in one of the critical components of the project—the development of adequate infrastructure. A program such as described in H.R. 10 would yield the funding for the necessary structural framework, providing the leverage to secure the private investment, and result in the overall revitalization of this distressed area.

Dade County was also able to take advantage of title IX of the existing EDA programs after the 1980 riots. $5 million was provided to set up a local revolving loan fund. The Fund was used to support new and existing small businesses in Libery City, resulting in thousands of jobs in this economically depressed area. This fund has now been nearly depleted and the principle from the loans comes in slowly. An infusion of additional funds through the programs such as described in the National Development Investment Act would maintain the viability of this much needed capital resource.

In conclusion, Mr. Chairman, the National Association of Counties has strongly supported this legislation and will continue to do so. We appreciate the opportunity to present our views and look forward in working toward the passage of H.R. 10 this year.

Mr. Nowak. Please proceed.

TESTIMONY OF HON. HARVEY RUVIN, COUNTY COMMISSIONER, DADE COUNTY, FL, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, ACCOMPANIED BY PAULA JARVIS, AND MATTHEW COFFEY, EXECUTIVE DIRECTORS

Mr. Ruvin. Thank you very much, Mr. Chairman. I appreciate your familiarity with my county. My name is Harvey Ruvin. If I may, I would like to introduce Paula Jarvis, who is the chief staff person for the National Association of Counties governing this area, and our outstanding executive director, Matthew Coffey, sits behind me.

I am privileged to be a county commissioner from Dade County, FL which not only encompasses the city of Miami, but 27 other cities in a very large, unincorporated area. We have approximately

2 million people in Dade County. It represents a real cross-section of the political and economic spectrum of this country.

It's also my privilege to serve as the third vice president of the National Association of Counties which, for us, is president-elect, twice removed. The National Association of Counties is now celebrating its 50th anniversary representing 3,000 county governments in America, and as a spokesunit for those governments in Washington.

It's my privilege to once again appear before the subcommittee to express our support for maintaining a strong Federal partnership with local governments in achieving national economic development objectives.

We see two driving themes at work this year as Congress scrutinizes every domestic assistance program. First, of course, is the Federal deficit. The second force is less obvious, but nevertheless powerful. That is the ongoing and dramatic reshaping and questioning of the role of the Federal Government in assisting local and State governments.

First, the issue of the deficit. NACo has addressed that very square and very head on, we feel. We have endorsed and acknowledge the need for efforts to reduce the deficit. We feel that those efforts and those reductions must be fair. Local governments, we wish to point out, have already absorbed some $30 billion in domestic cuts since 1981. Despite the fact that a freeze on domestic spending in 1986 would translate into yet another $3 billion loss to State and local governments, we are recommending such a freeze. For this reason, we are supporting a funding level for the new programs outlined in H.R. 10 equal to the $340 million that was appropriated for EDA programs in 1985.

The second issue, the role of the Federal government as a partner with State and local governments and, more specifically, its role in economic development, is one we feel warrants serious discussion and analysis.

At the local level, we feel that we have proven that we are an effective arm of government in getting things done. We're the units of government that have already established the economic development authorities that are in place today. We provide tax exempt financing. We build the infrastructure necessary to support plants and business facilities. We support the industry which we have and work very hard to attract new businesses to our communities. We are doing our job. This does not preclude a Federal role; on the contrary, it calls for one.

We need the Federal Government to fill the gaping holes resulting from national disparities and transition economies, and to provide an overall direction and incentive to keep jobs not just in Miami or Buffalo, but in the United States.

Our economic dilemma is difficult to describe because it is manifested at the local level in sharply contrasting ways. Nationally, 8.4 million Americans are unemployed; 7.3 percent of our work force. Because this is a substantial decrease from our record high unemployment only 2 years ago, the perception is dangerous that things are OK. Perhaps this is so in certain areas and some sectors of our economy. But consider that at the local level there are sharp variations from the national averages. Pockets of chronic unemployment remain throughout this country. For example, unemployment in West Virginia remains the Nation's highest at nearly 16 percent. In Missouri, the Statewide unemployment rate corresponds with the national rate, but rural Washington and Maries Counties hover at 20 percent.

The unemployment of certain population groups, such as blacks, hispanics, and youth remain disproportionately high. In Dade County, our unemployment rate overall is 7.9 percent, but the unemployment rate among black youths is 45 percent.

While there is a tremendous surge in high technology and service-related industries, there are many parts of the country caught in the transition from older industrial make-ups. The enormous capital investment in existing facilities and the surplus work force place tremendous stress on those communities. I don't have to remind you, Mr. Chairman, of the shockwaves created by the closing of a major employer such as Bethlehem Steel in Erie County, New York. Four thousand jobs directly lost as well as thousands more in related industries.

There are global events taking place certainly beyond the control of local government. Developing nations are new sources of cheap labor. The high value of the dollar, while reflecting a good economy at home, force more costly American goods to compete with cheaper foreign products.

As a nation, we are failing to keep pace with demands for new public facilities in our growth regions and work out infrastructure, as Congressman Clinger referred to before. One-third of the Interstate Highway System is in need of repair. Nearly 45 percent of the bridges in this country are deficient or obsolete. Locally there are problems with insufficient water supplies, waste treatment, roads, and bridges. The price tag by the year 2000 is estimated to be over $1.1 trillion. Who can and will pay for this? County governments have had the single greatest increase in their debt since the depression. The majority of their debt has gone for education, airports, and sewage treatment. We have responded already as best we can by creating new financing mechanisms through user fees and tax increment financing. The property tax has already been over burdened and is faced with tremendous constrictions constitutionally and through the local tax amendments that have been proliferating in this country. I might point out that the young lady to my right, although her name is Jarvis, is unrelated to any name connected with that kind of movement.

Those are just a few of the national problems requiring the attention and commitment of the Federal Government that relate to this issue.

To deal with these problems, American counties believe that a partnership with the Federal Government must continue, if not expand. Counties will continue to assume their instrumental role. Many counties have large unincorporated areas where they undertake the development activities themselves, while others work jointly with their central cities and smaller jurisdictions, dismantling parochial interests and providing an areawide approach to economic development. Still others play a broker role or provide technical assistance to their constituent units of government.

H.R. 10 would provide a reasonable amount of Federal assistance to continue this important partnership. We believe that this legislation would enable local Governments most affected by changing economic conditions to deal with the unique problems facing them.

Specifically, we support the legislation's targeting of funds to areas of high distress. In particular, we are pleased that the legislation would allow counties and cities above 50,000 population to directly apply for Federal funds regardless of whether or not they are located in a designated EDA district.

We also support the legislation's leveraging requirements. This is a highly responsible measure that ensures maximum local and private resources will be utilized to match scarce Federal dollars.

In addition, we endorse the requirement that applicants must formulate an overall development investment strategy rather than a project-by-project approach. This will promote long-term and comprehensive solutions. In Miami we are involved in a process right now developing just such a mechanism.

One area not specifically addressed by the legislation is the emerging need for venture capital. A technology-based economy requires a critical mass of diverse and numerous light manufacturing and small business firms. To achieve this critical mass, we must be willing to finance new businesses which have little or no startup capital. These types of firms lack capital financing generally because they are creating unproven products for new markets. The element of risk is high in this type of endeavor; but we must be open to find new ways of responsibly using public funds to encourage this type of economic growth.

Mr. Chairman, before concluding, I would like to describe how the National Development Investment Act can have a major impact in Dade County, FL.

Several areas in our county, in northwest Dade County north of the 163rd Street area, can be described as pockets of distress; and in particular Liberty City, an unincorporated part of the county where the riots of May 1980 occurred. Dade County has recognized the critical link between the social and the economic development of the area and we are committed to a major revitalization of that area. We've raised over $7 million in private seed money. One of the projects included in this plan is the development of industrial parks. The problem, however, is that we are lacking in one of the critical components of this project, and that is the development of adequate infrastructure. As the chairman pointed out before, the kinds of programs you're talking about are those that would stimulate the kind of growth we need to overcome the deficit. This program that is described in H.R. 10 would yield the funding for the necessary structural framework providing the leverage to secure the private investment, and result in the overall revitalization of this distressed area as an example of many others that exist across the country.

Dade County was able to take advantage of title IX of the existing EDA programs after the 1980 riots. Five million dollars was provided to set up a local revolving loan fund. The fund was used to support new and existing small businesses in Liberty City, resulting in thousands of jobs in this economically depressed area. This fund has now been nearly depleted and the principle from the loans comes in slowly. An infusion of additional funds through programs such as described in the National Development Investment Act would maintain the viability of this much needed capital resource.

In conclusion, Mr. Chairman, the National Association of Counties has strongly supported this legislation and we pledge we will continue to do so and to work in every way we can to help this committee help the House of Representatives in seeing that its efforts are going to be reflected in the Senate and we can get legislation finally passed. We can all work together toward that end. With that, I stand ready to answer any questions or to respond to any of your inquiries.

Mr. NOWAK. Thank you very much, Commissioner. We have a big job in pulling together an awful lot of loose ends that have never been tied in a neat package to see the overall impact. I think your statement leads us in that direction. In trying to evaluate the total impacts, clearly we see where funding different projects in areas around the country have had successful use in economic disasters. The problem is to give the counties and the cities the opportunities to start to look at, even while we grow, the fact that there are going to be subregions of this country that will have shifts. Then you complicate that with Federal policy. We have to have some minimal Federal presence. Otherwise, the system doesn't really function to take care of those kinds of problems.

The total withdrawal, that has been presented in the administration budget, will lead us down into a very critical stage where we can't develop any tools to bring us out of a much deeper recession than we're headed for anyway. It's a catch-22 situation.

Mr. RUVIN. Very well said.

Mr. NOWAK. I think your area that has been helped, and I've been through Liberty City, has at least given you the ability to respond to some of the problems out there. We certainly haven't solved it all there or in many other areas. As we see the shifting in this economy, what may be a great growth area today, in 5 years may be sliding the other way. If you don't have that minimal response available, you can't react at all. Thank you for your statement.

Mr. RUVIN. There was a question that was asked of the previous speaker that I would like to just add something for the record.

The comment about the decreasing local participation in EDA programs through the property tax. Last year alone, local Governments raised property taxes over the previous year to the amount of $6.3 billion. The problem we face is that we see so much of a withdrawal of Federal participation in other areas that we need to apply funds to, that we've lost the flexibility with local taxes. Thank you for giving us this time today.

Mr. NOWAK. I want you to stay because we're going to have some other questions. Let me turn to Congressman Clinger.

Mr. CLINGER. Thank you, Mr. Chairman and Mr. Ruvin. I just have a couple of questions. Recently, we had a representative, Mr. Carl Young of New York, before the Surface Transportation Subcommittee of this committee. He testified that NACo had a priority list of programs which they hoped to immunize against further cuts. In rank order they were: General Revenue Sharing, Medicaid, CDBG, programs for rural areas, and mass transit. I guess the question is why did EDA not appear on that list. I'm wondering if that was an oversight or if NACo would include EDA as one of the areas that they would hope to immunize.

Mr. **Ruvin**. It is of great interest. I think if general revenue sharing is lost, I think EDA not only joins the list, but comes very high on the list. Without general revenue sharing the need for EDA programs is even greater.

Mr. **Clinger**. USA Today had a piece the other day in which they indicated the surpluses that various States will end 1985 with, indicating that Florida would anticipate a surplus of $111 million. Has the State responded to the infrastructure crisis? Has there been a reversal of the trend I talked about earlier of the lesser involvement by the State?

Mr. **Ruvin**. As I understand it, any monies that are going to be committed to local purposes from the surplus are going to go to education. That seems to be the major thrust of the Governor and the leadership in our State legislature. Again, this leaves local governments in a quandry as to how to deal with fundamentally less.

Mr. **Ruvin**. Extremely so.

Mr. **Clinger**. Thank you very much.

Mr. **Nowak**. Thank you. Congressman Applegate.

Mr. **Applegate**. Thank you very much, Mr. Chairman. Mr. Ruvin, it's nice to have you here before the committee. I enjoyed our conversation before the committee convened. I want to say that your statement is right on target. It's very good and I think it says much of what many of us have been saying with regard to what we would like to see in a fair Federal budget.

When I look at some of the problems we have, it's true that if the administration's programs ultimately come into being, we're going to see the elimination of Federal Revenue Sharing, CDBG's, UDAG's, SBA, Farmer's Home, and every other program that has a letter and every other program that sends money back home to the States. Granted, I suppose it's a good idea to say that states should have control and everything should be done on a local basis, but that isn't the way the system has been built. I think the Federal Government should play a participatory role, provided that we don't give everything away. Those local entities are going to have to continue to share in it just as the Federal Government has. New Federalism is what the President has called it. We realize that if the Federal Government does eliminate all these programs and that no money is going to be sent back, that taxes are going to have to be increased substantially. I think Mayor Morial had stated that in New Orleans they don't have property tax but they have a 9 percent sales tax. They're probably going to have to conjure up a new property tax or eliminate some of those whom they have exempted. That's the way it's going to be all around if the people back home are going to continue to want to see the same services that they've been getting through their Federal tax dollar. You either raise taxes at a local level or—it still doesn't make any difference—if we raise taxes at a local level to continue those programs, we're still going to be looking at $190 to $200 billion deficits on the Federal level. That really isn't going to change the Fed.

Let me say this. I think that you and Mayor Morial had stated that the freeze would be the way to go right now. Are you talking about a freeze on the entire budget, which would include defense and which would include foreign aid, which would automatically freeze the interest on the national debt?

Mr. RUVIN. Yes. NACo has just taken the position that it's a difficult time to be calling for expansion of programs. The theme of our position has been fairness and equity which I think extends our request for a freeze across-the-board to defense, as well. We need to look at it from that standpoint so that everybody feels a little bit of a burden. We're supporting last year's allocations of $340 million for the EDA programs.

Mr. APPLEGATE. So, you basically wouldn't be in support of what the Senate has done with their budget which is a freeze with a moderate increase in defense. Do you have any idea how much NACo would consider would be saved by passing a freeze as opposed to normal increases?

Mr. RUVIN. Maybe we're looking at it myopically, but a freeze, for us, would not mean a savings. It would actually mean another $3 billion of reductions for us after $30 billion absorbed over the last 4 years because of the proposed programs that wouldn't be going forward as well as inflation. I don't think I answered your question. I don't think that I have that figure available.

Mr. APPLEGATE. The freeze that you're talking about is a freeze plus inflation or without it?

Mr. RUVIN. The freeze that we're saying——

Mr. APPLEGATE. Last year's figures or this year's figures?

Mr. RUVIN. Last year's figures. Excuse me, 1985's figures, which wouldn't go as far in 1986 as they did in 1985.

Mr. APPLEGATE. That's good and it's good to know that you do support the legislation that is here. Your statement states that very articulately. I thank you for coming and appearing before the committee.

Mr. RUVIN. Thank you.

Mr. NOWAK. Next, we'll have Congresswoman Johnson from Connecticut.

Mrs. JOHNSON. Thank you very much. I just want to make one comment and then ask questions. I'm interested that you support a freeze. Regardless of how we define it, a freeze is an inadequate response to the dimensions of our problem. I think it's important that all of us realize that. A freeze, even the most conscientious, would only develop $34 billion of the $50 billion in reductions that we need. There's a lot of attachment to the $50 billion figure because a lot of us believe that, even if we cut spending $50 billion leaving us with a $150 billion deficit, in 3 years that's inadequate to assure an economy that provides the kind of growth and revenues that we all depend on. Without substantial action from the Congress that will bring that deficit below $100 billion in 3 years, indeed our economic base will be eroded. The international trade problem will become a major disaster. There's a lot of commitment to the $50 billion and there's some commitment to some action thereafter. The reason revenues are not being looked at to displace the painful decisions that we have to make about reducing spending is because there's many that believe follow-on action will be required, which will address revenues in order to get that figure down below $100 billion. That's the framework within which I'm working and I think it's unrealistic to believe that we have the privilege of saying a freeze is the tough choice. A freeze is only a small part of the tough decisions ahead.

Mr. RUVIN. That's why NACo, in addressing the whole budgetary spectrum of issues this year, did focus on top priorities.

Mrs. JOHNSON. In that regard, I'm interested that you did discuss the issue of distressed communities. I would ask you what proportion of county dollars—economic development dollars—are spent in targeted areas versus nontargeted areas, or distressed areas versus nondistressed areas?

Mr. RUVIN. I'd say in Dade County it is probably 60 or 70 percent. The major measuring stick, in terms of jobs, is the kind of jobs that we're looking for that would be available to the high unemployment element in the demography. We're looking for new industry and we're looking for jobs like that. That's our need. In Dade County, we've had some very dramatic trauma which has demonstrated that to us. I think that lesson has been learned by county governments all over the country.

Mrs. JOHNSON. I certainly agree with you on that. I think those instruments that are targeted to distressed areas are more important than those instruments that are not targeted to distressed areas. They're certainly principles upon which I'm going to make some of the decisions that I have to make in the coming months. Thank you.

Mr. NOWAK. Next, we'll hear from Ed Towns, the Congressman from New York City.

Mr. TOWNS. Thank you very much, Mr. Chairman. I know that the Commissioner also spent a lot of years in New York. That, also, makes me very proud.

I would like to thank you for an excellent statement. I was happy to know that you support targeting. I would like to know a little bit more about the local revolving loan fund. How does it actually work? Could you give me its structure?

Mr. RUVIN. It's a revolving fund. That money is loaned out—there's a set of qualifications and objectives that have to be met—and as those money are paid back, it replenishes this fund and the purpose is to have a perpetual fund that we'll be able to use as a resource. It's not enough and the nature of those kind of loans is that there's a lot of risk. There's people that are learning entrepreneurship. There have been problems in auditing and in the learning process. It's a very important resource for us because it allows us to hold out some hope.

Mr. TOWNS. How many jobs would you say that it has produced? Would you have any indication of that?

Mr. RUVIN. I would say several thousand jobs.

Mr. TOWNS. How is it actually administered?

Mr. RUVIN. Through our Community Development Program. We have a community development director and a very large staff and it's set within the context of overall community development goals and objectives.

Mr. TOWNS. What's the view of the national—I ask this because when we talk about freezing at the present level, knowing that's not a solution to the problem as we see it—what's the National Association of Counties' view on user fees? I am concerned about that because user fees generally hurt the people who can least afford it.

Mr. RUVIN. User fees is an option that we'd rather not have to go to, obviously. Your local governments are not privileged to have deficits. I don't think there's a county government in the country that runs a deficit because our budgeting procedures are such that we have to match each year's expenditures with each year's projected revenues. With the property tax so constricted and limited, with sales tax—we've raised sales tax in south Florida, but that's not something that you can do each year—the only other alternatives that we have are user fees. Our park system in Dade County is considered one of the best in the United States and it really grieves us to have to charge people to go to our parks. It's something that we fight drastically against. The choices are tough. The choices are to either do that or to somehow limit the people that we can offer public health assistance to in our hospitals. That's obviously got to be a higher priority. In this priority squeeze, we are seeing user fees emerge as a new tool for local government to find some revenues to pay the really exacerbated problems that have seen this massive withdrawal of Federal participation. We're seeing the entire social support structure in this country being dismantled. We've got to look to some source to try to fill this void that we see as a result of the Federal withdrawal of monies in those areas.

Mr. TOWNS. I agree with you but I think user fees is not a way to repair it. That's my concern.

Mr. RUVIN. The user fees that we're going to are in the areas that don't affect the lower economic end of the spectrum in Dade County. They're parks and other things that the more leisure oriented are having to pay. Some do relate to those populations because there's just no avoiding it. We try to avoid it as much as possible because of the obvious self-defeating aspect of it.

Mr. TOWNS. Thank you very much.

Mr. NOWAK. We have one final question from Congressman Clinger.

Mr. CLINGER. I was interested in your discussion with Congresswoman Johnson on the targeting aspect of these funds. I think one of the things we've learned over the years in EDA is that there are certain things that have to be present in order for economic development to succeed. I guess that becomes a hard question. Do you invest funds in an area where you do not have some of those vital factors? One of the things we've tried to do in this bill is to identify those factors that we have learned generally need to be present in order for any kind of critical mass to develop so that you can have economic development, such as available land, adequate local tax base, available labor force, and a leadership that can pick up the ball and run with it. I think that some of the failures of EDA in the past have been because we have invested money in targeted areas where no matter how much you put into the area you were not going to reverse the economic decline. You'd reached a point of no return, as it were.

Maybe I'm wrong on that, but it seems to me you need to identify, in the national legislation at least, those factors that we have learned are necessary in order for your investment to really be worthwhile. Would you agree with that?

Mr. RUVIN. I would agree partially. I wouldn't agree that we should give up in those areas because there's human need that exists there. It spells the unfulfillment of the American dream. I think we've always got to be working to do that. I think you're very correct. There's been a lot of money that has been somewhat wasted because there hasn't been strategic planning. That's a real strong element in the bill's approach to have strategic planning in place so that we know where we're going; we know how it's going to fit in the future; and it gets synergized so that it has a chance of really affecting these problems, rather than just be a placater. When that's used up, you go get more. That doesn't make sense.

Mr. CLINGER. Thank you.

Mr. NOWAK. Thank you very much, Commissioner. I hope that, while you're on Capitol Hill, you will see all of the Members from the State of Florida and urge them to look at these programs as a part of a very necessary Federal presence in your area. You have all of the local problems to deal with, but certainly this is one that can alleviate any of your local problems. If jobs are available, your local problems seem to diminish very quickly. We hope we can get balance in the system so that we can continue to have that minimal effect and presence in your area to help you through the transition.

I want to thank you for your testimony and I am looking forward to seeing you in a couple of weeks down there.

Mr. RUVIN. Please come visit us. Are you coming down?

Mr. NOWAK. I'll be down in the southern area.

Mr. RUVIN. Please allow me to show you our pockets of distress as well as some of the other things that we can do. [Laughter.]

Mr. NOWAK. Thank you. I'll be looking forward to it. For our next witness, we have Mr. John M. Ladd. To introduce Mr. Ladd, we have our own member on the committee, Sherry Boehlert, who has worked with Mr. Ladd and has seen first hand the effect of this program in conjunction with many others and has been a leading advocate for this program over many years. I'll turn now to Congressman Boehlert.

Mr. BOEHLERT. Thank you very much, Mr. Chairman. Mr. Ladd is no stranger to this subcommittee or the full committee. He has been very actively involved with the Economic Development Administration since its inception back in 1965. I can recall vividly in my prior incarnation as an executive assistant for a Member of Congress working with Mr. Ladd to help establish the Mohawk Valley Economic Development District. I can tell you, without hesitation or reservation, that in the MVEDD we have a real success story, and in Mr. Ladd we have one of the foremost experts in the country on economic development matters.

I can further state that without the work of his organization and his dedicated effort, there are many areas of our beloved upstate New York that would be truly depressed. There are not and that's a tribute to the legislation and the organization of the man before us. It's a great privilege for me to welcome my friend and fellow warrior in the battle for economic development and job opportunities for us all, John Ladd.

Mr. **Nowak**. Mr. Ladd, you're very familiar with the procedure. The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF
JOHN M. LADD
of the
PUBLIC WORKS & ECONOMIC DEVELOPMENT ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
March 26, 1985

MR. CHAIRMAN: MY NAME IS JOHN LADD. I AM HERE REPRESENTING DOLORES HARRELSON, THE PRESIDENT OF THE PUBLIC WORKS & ECONOMIC DEVELOPMENT ASSOCIATION (PWEDA) WHO IS UNABLE TO BE IN WASHINGTON TODAY. I AM A PAST PRESIDENT OF PWEDA AND PRESENTLY SERVE AS A MEMBER OF THE BOARD OF DIRECTORS. I AM ALSO EXECUTIVE DIRECTOR OF THE MOHAWK VALLEY ECONOMIC DEVELOPMENT DISTRICT, LOCATED IN MOHAWK, NEW YORK AND AM VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MOHAWK VALLEY REHABILITATION CORPORATION WHICH IS A VERY ACTIVE REVOLVING LOAN FUND, FUNDED IN PART BY THE ECONOMIC DEVELOPMENT ADMINISTRATION AND BY THE FIVE MEMBER COUNTIES OF THE MOHAWK VALLEY ECONOMIC DEVELOPMENT DISTRICT. I WANT TO THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON H.R.-10.

OUR ASSOCIATION WAS FORMED IN MARCH OF 1981 FOR THE EXPRESS PURPOSE OF ADVOCATING ECONOMIC DEVELOPMENT PROGRAMS THAT CREATE OR SAVE JOBS. OUR MEMBERSHIP CONSISTS OF MULTICOUNTY ORGANIZATIONS, MORE COMMONLY KNOWN AS ECONOMIC DEVELOPMENT DISTRICTS, SMALL TO MEDIUM SIZED BUSINESSES AND INDUSTRIES AND LOCAL ELECTED OFFICIALS.

WE BELIEVE THAT ECONOMIC DEVELOPMENT IS GOOD FOR THE COUNTRY BECAUSE IT PROMOTES JOBS, HENCE, WE SUPPORT ANY EFFORT OR INITIATIVES THAT LEAD TO THAT END. FOR THAT REASON WE SUPPORT THE CONCEPTS CONTAINED IN H.R.-10. WE FEEL THAT THE IDEA OF FOCUSING ON EFFORTS TO PROMOTE JOBS IN RURAL AMERICA IS A GOOD ONE BECAUSE THE RURAL SCENE HAS CHANGED OVER THE YEARS. IT IS TIMELY THAT A BILL SUCH AS H.R.-10 IS NOW BEING CONSIDERED.

I AM VERY CONCERNED OVER THE CURRENT STATE OF THE ECONOMY AS IT RELATES TO ECONOMIC DEVELOPMENT, PARTICULARLY IN THE MOHAWK VALLEY OF NEW YORK STATE.

AT THIS POINT IN TIME, OUR ECONOMY HAS BEEN TAKING A BEATING FOR FIVE (5) LONG YEARS. THERE IS CONSIDERABLE UNEMPLOYMENT AMONG OUR CONSTRUCTION TRADE UNIONS. THE NUMBER OF UNEMPLOYED MEMBERS RANGES FROM 50% - 80%. THE SITUATION DOES NOT LOOK GOOD. MANY UNEMPLOYED MEMBERS HAVE EXHAUSTED THEIR BENEFITS. THERE ARE NO EXTENSIONS FOR UNEMPLOYMENT BENEFITS IN THE NEAR FUTURE. THE PROGNOSIS IS NOT GOOD.

OUR OVERALL UNEMPLOYMENT SITUATION IS NO BETTER THAN IT WAS IN 1980. IN FACT, OUR LABOR FORCE IS IN WORSE SHAPE BECAUSE THE MOST SIGNIFICANT LOSSES HAVE OCCURRED IN THE NUMBER OF PEOPLE EMPLOYED. WE ARE LOSING TAX PAYING WAGE EARNERS. IN OUR MORE DISTRESSED COUNTIES, THE UNEMPLOYMENT RATES ARE AT AN ALL TIME HIGH OF 15.6%.

IN OUR SUPPOSEDLY MORE STABLE SMSA, UTICA-ROME, NEW YORK, THE REAL UNEMPLOYMENT SITUATION IS EXTREMELY BLEAK. THE OFFICIAL 1984 UNEMPLOYMENT RATE WAS 7.4%. HOWEVER, IN 1984, 3100 PEOPLE RAN OUT OF UNEMPLOYMENT BENEFITS AND WERE TAKEN OFF THE ROLLS. IT IS THE CONCENSUS OF LOCAL DEVELOPERS AND LABOR FORCE SPECIALISTS THAT 95% OF THESE PEOPLE DID NOT FIND WORK IN THE AREA AND ARE CURRENTLY UNEMPLOYED. IF THESE PEOPLE WERE ADDED TO THE NUMBER OF UNEMPLOYED IN THE SMSA, THE UNEMPLOYMENT RATE WOULD RISE TO 9.3%.

DURING THE LAST FIVE (5) MONTHS, OVER 1700 PEOPLE HAVE BEEN LAID OFF FROM LOCAL INDUSTRIES. THESE LAYOFFS, IN TURN, SHOULD GENERATE AN ADDITIONAL 1200 LAYOFFS. THIS TRANSLATES INTO ANOTHER RISE IN LOCAL UNEMPLOYMENT RATE TO APPROXIMATELY 10.9%. THE MOST DISHEARTENING ASPECT OF MANY OF THESE LAYOFFS IS THAT THEY APPEAR TO BE AIMED AT MANTAINING ADEQUATE PROFIT MARGINS. A SIGNIFICANT NUMBER OF THE LAYOFFS ARE THE RESULT OF IMPORTS WHICH ARE DECREASING COMPANIES SHARES IN NATIONAL MARKETS. IN OTHER WORDS, THE BOTTOM LINE OF THE BALANCE SHEET IS BEING MAINTAINED AT THE EXPENSE OF AMERICAN JOBS.

ANOTHER BLEAK AREA IN OUR LOCAL ECONOMY INVOLVES AGRI-BUSINESS. I STRESS AGRI-BUSINESS BECAUSE WHATEVER IMPACTS OUR LOCAL FARMERS, IMPACTS THE LARGEST SECTOR OF OUR ECONOMY. LOW COMMODITY PRICES, HIGH CREDIT COSTS, SURPLUS MILK PRODUCTION, AN EVER-SHRINKING MARGIN OF PROFIT, CASH FLOW PROBLEMS, COMPETITION FOR GOOD LAND, GOVERNMENT REGULATIONS AND RISING MACHINERY, SEED AND FERTILIZER COSTS AFFECT MOST FARM BUSINESSES IN OUR AREA. THE SHORT TERM

DOES NOT APPEAR TOO PROMISING. DESPITE THE HIGH COSTS, THERE IS A REDUCTION IN INCOME. THERE IS EVIDENCE OF SELL-OUTS, HOWEVER, THIS IS ONLY PRELIMINARY.

ANOTHER CRITICAL SEGMENT OF OUR ECONOMY INVOLVES PUBLIC INFRASTRUCTURE NEEDS. DURING THE SUMMER OF 1984, WE MADE A SURVEY OF 149 LOCAL GOVERNMENTS IN OUR DISTRICT TO DETERMINE WHAT THEIR PUBLIC WORKS NEEDS FOR THE SHORT TERM WILL BE. THE RESULTS WERE A LIST OF OVER $122,277,000 IN PROJECTS. OF THIS FIGURE, 22 WERE WATER PROJECTS AT AN ESTIMATED COST OF $36 MILLION. THE MOST COSTLY PROJECTS INVOLVE THE DISPOSAL OF WASTES. THE ESTIMATED COSTS RAN WELL OVER $34 MILLION. THESE FIGURES POINT OUT THE DETERIORATING CONDITION OF OUR PUBLIC INFRASTRUCTURE AND THE CRITICAL NEED IN OUR PREDOMINANTLY RURAL AREA.

THE LONG TERM DETERIORATION IN OUR ECONOMY IS FURTHER SEEN IN THE PRIVATE SECTOR. WE HAVE SEEN THE NUMBER OF BUSINESS BANKRUPTCIES INCREASE TO 25% OF ALL BANKRUPTCIES FILED. SINCE 1980, THE NUMBERS HAVE REMAINED CONSTANT, RATHER THAN DECLINE. CRITICALLY NEEDED MONEY FOR WORKING CAPITAL AND START-UP OPERATIONS IN BUSINESSES IS AT A PREMIUM. WE ARE EXPERIENCING AN INCREASE IN THE NUMBER OF REQUESTS UNDER OUR REVOLVING LOAN FUND, MORECO. THERE APPEARS TO BE A RISE IN THE NUMBER OF ENTREPRENEURS WHO ARE ATTEMPTING TO PROVIDE LOCAL CONTRACT WORK TO MAJOR LOCAL FIRMS. MORE OFTEN THAN NOT, THESE PEOPLE WERE AT ONE TIME ASSOCIATED WITH THE PRIME CONTRACTOR.

THIS HAS PLACED INCREASED DEMANDS ON LOCAL BUSINESS FINANCING AGENCIES. OUR REVOLVING LOAN FUND HAS BEEN EXTREMELY SUCCESSFUL. WE HAVE MADE OVER $2.5 MILLION IN LOANS TO 70 BUSINESSES. THESE HAVE RESULTED IN CREATING OVER 1,600 JOBS. DESPITE THESE SUCCESSES, WE ARE FINDING THAT THE DEMAND FOR THIS TYPE OF FINANCING CONTINUES TO INCREASE.

I URGE YOU TO CONTINUE FUNDING THE VARIOUS PROGRAMS DEALING WITH ECONOMIC DEVELOPMENT IN THE UNITED STATES. THEY SATISFY AN URGENT NEED IN THIS COUNTRY. WE MUST STIMULATE ACTIVITIES WHICH RETAIN JOBS AND ENCOURAGE ACTIVITIES WHICH CREATE JOBS. OUR DISTRICT HAS BEEN EXTREMELY SUCCESSFUL IN DEVELOPING PUBLIC WORKS PROJECTS WHICH CREATE AND RETAIN CRITICALLY NEEDED JOBS. OUR SUCCESS WITH EDA BUSINESS DEVELOPMENT LOANS SPEAKS FOR ITSELF. OUR REVOLVING LOAN FUND HAS BEEN ESTABLISHED AT A CRITICALLY NEEDED TIME. WHILE MONEY IS NOT ALWAYS AN EFFECTIVE MEASURE OF VIABILITY, WE HAVE FUNNELED MORE THAN $58,000,000 INTO THE REGION, CREATING MORE THAN 10,000 JOBS AND SAVING OVER 15,000 JOBS WITH AN ECONOMIC IMPACT OF MORE THAN $114,000,000.

WE FEEL THAT THE SUCCESS OF PROGRAMS SUCH AS OURS ARE CRITICAL TO ANY AGENDA FOR ECONOMIC DEVELOPMENT. WE ALSO FEEL THAT OUR SUCCESS LIES IN THE EFFECTIVENESS OF THE ECONOMIC DEVELOPMENT DISTRICT PROGRAM. IT APPEARS IN BILL H.R.-10 THAT STRONGER SUPPORT SHOULD BE INCLUDED FOR ECONOMIC DEVELOPMENT DISTRICTS ACROSS THE COUNTRY. THEY HAVE PROVEN TO BE AN EXPERT DELIVERY SYSTEM FOR ALL PROGRAMS OF COMMUNITY AND ECONOMIC DEVELOPMENT

NOT ONLY IN RURAL AMERICA BUT IN MANY OF THE SMALL METROPOLITAN AREAS OF THE UNITED STATES. FOR THE SMALL AMOUNT OF MONEY INVOLVED, THESE DISTRICTS SHOULD BE THE EXCLUSIVE DELIVERY SYSTEM FOR ALMOST EVERY MAJOR FEDERAL PROGRAM IN THE UNITED STATES. UNLESS THE LANGUAGE AS CONTAINED IN THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965, AS AMENDED, WHICH ADDRESSES THESE DISTRICTS, IS INCLUDED IN THIS BILL, I FEEL THAT YOU ARE WEAKENING THE ENTIRE DELIVERY SYSTEM FOR ECONOMIC DEVELOPMENT IN THE UNITED STATES.

HAVING THE STATES ADMINISTER BLOCK GRANTS IS NOT THE ANSWER. THE AMOUNT OF MONEY THAT WOULD TRICKLE DOWN TO THE LOCAL COMMUNITIES IN THIS CASE WOULD BE MINIMAL. A SIGNIFICANT PORTION OF THE PROGRAM FUNDING WOULD BE EATEN UP IN OVERHEAD CHARGES. THIS HAS BEEN THE CASE WHENEVER STATES ADMINISTER PROGRAMS, PARTICULARLY THOSE WHICH DEAL WITH NON-METRO AREAS. IN THE INTEREST OF RURAL AMERICA, I DO NOT BELIEVE THAT BLOCK GRANTS FOR ECONOMIC DEVELOPMENT SHOULD BE MADE TO THE STATES. I BESEECH YOU AS A COMMITTEE TO STRENGTHEN THE WORDING IN SUPPORT OF ECONOMIC DEVELOPMENT DISTRICTS.

THANK YOU.

SUPPORTING EXHIBITS:

- 1984-1985 LAYOFFS -- UTICA/ROME, NEW YORK AREA
- MOHAWK VALLEY ECONOMIC DEVELOPMENT DISTRICT - PUBLIC WORKS SURVEY
- SUMMARY MORECO/RLF
- IMPACT OF JOB PRODUCING PROJECTS FUNDED BY ECONOMIC DEVELOPMENT ADMINISTRATION IN ARKANSAS

1984-1985 LAYOFFS -- UTICA/ROME, NEW YORK AREA

* September 13 - F.X. Matt Brewing Company in Utica, 15 workers due to a seasonal drop-off in beer sales. Officials said the workforce would be increased in spring to prepare for summer business.

* November 13 - Oneida Limited in Oneida, 120 workers due to lagging purchase orders.

* November 16 - Mohawk Data Sciences (MDS) of East Herkimer, 90 workers - just one week after laying off 32 workers - to help recover from nearly $53 million in losses during 1983.

* January 3 - Special Metals Corporation of New Hartford, 65 workers - 15 permanent and 50 temporary - to increase profits, retain a competitive edge and compete against Japanese competitors.

* January 12 - Bossert Manufacturing Corporation of Utica, 11 workers due to reduced orders.

* January 13 - BFI Communications, Inc. of Utica, 33 workers to recover from a $1.9 million loss during 1984.

* January 17 - International Computer Limited (ICL), 300 workers permanently furloughed because ICL's parent company, ICL PLC, plans to consolidate its manufacturing operations in the United Kingdom.

* January 30 - Chicago Pneumatic of Utica, 60 to 70 workers due to poor business conditions.

* February 26 - Oneida Limited in Oneida, 75 to 80 workers furloughed due to slumping sales.

* February 28 - Duofold, Inc. of Utica, 40 workers due to seasonal lull in orders.

* March 2 - Mohawk Data Sciences (MDS), 62 workers to cut costs.

* March 2 - Rome Cable Corporation of Rome, an estimated 50 workers laid off in order to remain competitive in wire and cable industry.

* March 6 - Indium Corporation of Utica, 18 workers due to a seasonal drop-off in the semi-conductor industry.

* March 7 - Revere Copper Products, Inc., Rome, 400 workers due to competition from copper imports and poor sales.

* March 15 - Bossert Manufacturing Corporation of Utica, 150 workers due to pull out by Rockwell.

* As of March 18, 1985 - Mohawk Data Sciences (MDS), 216 workers due to recovery on losses and poor business conditions.

MOHAWK VALLEY ECONOMIC DEVELOPMENT DISTRICT
PUBLIC WORKS SURVEY

GRANTS

PROJECT LOCATION	PROJECT DESCRIPTION	PROJECT COST
DISTRICT-WIDE	SHELL BUILDING CONSTRUCTION (INCLUDES ONE IN ROME, BOONVILLE, AIRPORT INDUSTRIAL PARK, UTICA & SCHOHARIE INDUSTRIAL PARKS)	$ 1,600,000
DISTRICT-WIDE	OLD BUILDING REHABILITATION FOR INDUSTRIAL AND COMMERCIAL USE IN URBAN AREAS	5,000,000 4,000,000
DISTRICT-WIDE	SPECIAL HOUSING PROGRAM	1,000,000
NEW YORK STATE	ADIRONDACK RAILWAY RIGHT-OF-WAY IMPROVEMENTS	2,000,000
FULTON COUNTY	SANITARY LANDFILL	4,000,000
FULTON COUNTY	COUNTY OFFICE BUILDING	1,100,000
FULTON COUNTY	HISTORIC BLOCKHOUSE RESTORATION	500,000
FULTON COUNTY	INDUSTRIAL PARK	1,500,000
FULTON COUNTY	RECREATION TRAILWAY	400,000
FULTON COUNTY	RESOURCE RECOVERY PLANT	10,000,000
FULTON COUNTY	COUNTY JAIL (POSSIBLY REGIONAL)	10,000,000
CITY OF JOHNSTOWN	RESERVOIR PROJECT	2,035,000
CITY OF JOHNSTOWN	PIPELINE & PUMPING STATION	455,000
CITY OF GLOVERSVILLE	DEVELOPMENT OF WATER SUPPLY	1,156,000
GLOVERSVILLE/ JOHNSTOWN	WATER POLLUTION CONTROL (LEATHER INDUSTRY)	1,150,000
GLOVERSVILLE/ JOHNSTOWN	INDUSTRIAL WATER RECOVERY	2,200,000
VILLAGE OF BROADALBIN	STORM SEWERS	100,000
VILLAGE OF BROADALBIN	COMPLETION OF WATER DEV. PROGRAM	200,000
VILLAGE OF BROADALBIN	NEW 300,000 GALLON WATER TOWER	500,000
VILLAGE OF BROADALBIN	SIDEWALKS & CURBING	300,000
VILLAGE OF BROADALBIN	ADDITION TO TOWN HALL	
VILLAGE OF BROADALBIN	GARAGE-HIGHWAY EQUIPMENT	
VILLAGE OF BROADALBIN	GARAGE-AMBULANCE	
HERKIMER COUNTY	HIGHWAY IMPROVEMENTS	1,250,000
VILLAGE OF ILION	STREET IMPROVEMENTS	1,200,000
TOWN OF WEBB	WATER IMPROVEMENTS PROJECT	2,830,000
CITY OF LITTLE FALLS	PARKING GARAGE	300,000
CITY OF LITTLE FALLS	INDUSTRIAL LAND EXPANSION PROJECT	500,000

GRANTS

PROJECT LOCATION	PROJECT DESCRIPTION	PROJECT COST
VILLAGE OF MOHAWK	WATER IMPROVEMENTS	$ 660,000
VILLAGE OF NEWPORT	WATER IMPROVEMENTS	500,000
VILLAGE OF FRANKFORT	WATER IMPROVEMENTS	800,000
VILLAGE - MIDDLEVILLE	SIDEWALKS & STREETS IMPROVEMENTS	22,000
VILLAGE - MIDDLEVILLE	IMPROVEMENT TO MEMORIAL HALL	42,000
VILLAGE - MIDDLEVILLE	FIRE HYDRANTS REPLACEMENT	20,000
VILLAGE - MIDDLEVILLE	FIRE SIREN REPLACEMENT	7,000
MONTGOMERY COUNTY		
VILLAGE - CANAJOHARIE	DOWNTOWN INDUSTRIAL & COMMERICAL IMPROVEMENTS	1,360,000
CITY OF AMSTERDAM	WATER IMPROVEMENTS PROJECT	7,280,000
CITY OF AMSTERDAM	BROOKSIDE AVENUE IMPROVEMENT	1,050,000
CITY OF AMSTERDAM	MOHAWK INDUSTRIAL PARK IMPROVEMENTS	100,000
CITY OF AMSTERDAM	IMPROVEMENTS TO ACCESS TRAFFIC FLOW & PARKING OLD BIGELOW SANFORD COMPLEX	750,000
CITY OF AMSTERDAM	IMPROVEMENTS TO ACCESS & TRAFFIC FLOW EAST END INDUSTRIAL PARK	200,000
CITY OF AMSTERDAM	EXTENSION OF WATER & SEWER NORTH ON ROUTE 67	200,000
CITY OF AMSTERDAM	EXTENSION OF WATER & SEWER SOUTH ON ROUTE 30	500,000
ONEIDA COUNTY	JAIL IMPROVEMENTS	4,651,000
ONEIDA COUNTY	UNION STATION IMPROVEMENTS (UTICA)	1,500,000
ONEIDA COUNTY	STANLEY THEATRE REHABILITATION	3,000,000
ONEIDA COUNTY	ONEIDA COUNTY BUREAU OF TOURISM	250,000
ONEIDA COUNTY	ENERGY RECOVERY FACILITY FOR EASTERN ONEIDA COUNTY	20,000,000
ONEIDA COUNTY	CONSTRUCTION OF NEW SHELL BUILDING AT ONEIDA AIRPORT/INDUSTRIAL PARK	500,000
ONEIDA COUNTY	CONSTRUCTION OF ADDITIONAL HANGARS AT THE ONEIDA COUNTY AIRPORT	1,500,000
ONEIDA COUNTY	CONSTRUCTION OF ADDITIONAL DPW GARAGES	1,200,000
ONEIDA COUNTY	BROADACRES RENOVATIONS - IMPROVEMENTS TO JENSEN HALL	750,000
ONEIDA COUNTY	ONEIDA COUNTY (ROME) COURT HOUSE IMPROVEMENTS	500,000

GRANTS

PROJECT LOCATION	PROJECT DESCRIPTION	PROJECT COST
ONEIDA COUNTY	HANDICAPPED ACCESSIBILITY IMPROVEMENTS TO ALL EXISTING ONEIDA COUNTY FACILITIES	$ 500,000
CITY OF ROME	TOURISM EXPANSION (CAPITAL THEATRE PROJECT)	975,000
CITY OF ROME	EAST ROME INDUSTRIAL PARK (GENERAL CABLE)	1,350,000
CITY OF ROME	DOWNTOWN IMPROVEMENTS	1,500,000
CITY OF ROME	WATER FILTRATION PLANT	7,000,000
CITY OF UTICA	STREET SCAPE IMPROVEMENTS TO COMPLETE CONVENTION CENTER (TOURISM)	1,650,000
CITY OF UTICA	AUDITORIUM IMPROVEMENTS	670,000
CITY OF UTICA	CORNHILL SPECIAL PROJECT & JOB DEV.	500,000
CITY OF UTICA	ASSOCIATION FOR THE BLIND WORKSHOP JOB DEVELOPMENT FOR HANDICAPPED TO COMPLEMENT INDUSTRIAL GROWTH	1,000,000
CITY OF UTICA	PUBLIC SAFETY BUILDING/POLICE STATION	
CITY OF UTICA	CITY HALL IMPROVEMENTS & MODIFICATIONS	250,000
CITY OF UTICA	DEPARTMENT OF PUBLIC WORKS IMPROVEMENTS & MODIFICATIONS	200,000
CITY OF UTICA	VARIOUS INDUSTRIAL SITES, ACQUISITION AND CLEARANCE FOR FUTURE DEVELOPMENT	5,000,000
CITY OF UTICA	IMPROVEMENTS TO MURNANE FIELD	9,000
CITY OF UTICA	SHERATON PARKING GARAGE RAMP	200,000
CITY OF UTICA	PARKING GARAGE (VICINITY OF BOSTON STORE & COUNTY OFFICE BUILDING)	2,500,000
CITY OF UTICA	KENNEDY GARAGE-STRUCTURAL IMPROVEMENTS	50,000
VILLAGE OF BOONVILLE	WATER IMPROVEMENTS	1,100,000
TOWN OF NEW HARTFORD	ADMINISTRATION BUILDING	300,000
TOWN OF VERNON	INDUSTRIAL ROAD EXPANSION	500,000
VILLAGE OF PROSPECT	IMPROVEMENT WATER SYSTEM	100,000
VILLAGE OF PROSPECT	WATER STORAGE TANK	350,000
VILLAGE OF PROSPECT	STORM SEWER & STREETS	60,000
VILLAGE - CLAYVILLE	MODERNIZATION & REPAIR WATER WORKS	850,000
VILLAGE - CLAYVILLE	RESURFACE MAIN STREETS & SIDEWALKS	850,000
VILLAGE - ORISKANY FALLS	WATER SYSTEM IMPROVEMENTS	640,000

GRANTS

PROJECT LOCATION	PROJECT DESCRIPTION	PROJECT COST
VILLAGE-NEW YORK MILLS	STREET IMPROVEMENTS	$ 50,000
VILLAGE-NEW YORK MILLS	ADDITION - FIRE STATION	500,000
TOWN OF DEERFIELD	HIGHWAY GARAGE	163,000
SCHOHARIE COUNTY	OFFICE BUILDING	
SCHOHARIE COUNTY	INDUSTRIAL PARK	1,610,000
SCHOHARIE COUNTY	TRANSPORTATION IMPROVEMENTS	1,000,000
VILLAGE - COBLESKILL	WATER EXTENSION PROJECT	1,000,000
TOWN OF JEFFERSON	CATSKILL MT. MAPLE PRODUCTS PROJECT	332,000
VILLAGE-McCONNELLSVILLE	WATER SYSTEM IMPROVEMENTS	500,000

SUMMARY AS OF 1/31/85

MOHAWK VALLEY REHABILITATION CORPORATION

REVOLVING LOAN FUND

TOTAL AMOUNT OF LOAN	JOBS 1/31/85	ORIGINAL JOBS	TOTAL PROJECT COST
$2,586,996.08	1,608	1,940	$17,366,809.00

APPROVED --------------------------	$ 2,500,000
LEVERAGED -------------------------	$17,400,000
OUTSIDE DOLLARS TO MORECO DOLLARS -	6.96:1
NUMBER OF LOANS -------------------	70
AVERAGE LOAN ----------------------	$32,714
AVERAGE TERM ----------------------	72 Months
JOBS @ 1/31/85 --------------------	1,608
COST PER JOB ----------------------	$ 1,555

IMPACT OF JOB-PRODUCING PROJECTS FUNDED BY ECONOMIC DEVELOPMENT ADMINISTRATION IN ARKANSAS
1965 - 1985

Prepared February 15, 1985 - Revised March 10, 1985

ECONOMIC DEVELOPMENT DISTRICT	NO. OF PROJECTS	JOBS CREATED	EDA $ AMOUNT	ANNUAL PAYROLL GENERATED*	ANNUAL TAXES GENERATED**
Central Arkansas Planning and Development District	47	13,207	$22,644,258	$109,882,240	$21,976,448
East Arkansas Planning and Development District	106	6,980	29,753,161	58,073,600	11,614,720
Northwest Arkansas Economic Development District	44	10,687	18,703,405	78,261,860	15,652,372
Southeast Arkansas Economic Development District	85	8,644	20,459,471	71,918,080	14,383,616
Southwest Arkansas Planning and Development District	30	15,824	14,877,088	131,655,680	26,331,136
West Central Arkansas Planning and Development District	46	9,877	17,359,320	75,855,360	15,171,072
Western Arkansas Planning and Development District	34	6,700	23,025,393	55,744,000	11,148,800
White River Planning and Development District	55	7,711	18,564,154	64,155,520	12,831,104
TOTALS	447	79,630	$165,386,250	$645,546,340	$129,109,268

*Annual Payroll Generated assumes an average hourly wage of $4.00

**Tax return assumes 20% of Annual Payroll Generated

Assuming the total of $165,386,250 as EDA dollars invested in job-creating projects, the JOB COST RATIO IS:
$165,386,250 ÷ 79,630 = 2,077

Mr. NOWAK. Please proceed.

TESTIMONY OF JOHN M. LADD, EXECUTIVE DIRECTOR, MOHAWK VALLEY ECONOMIC DEVELOPMENT DISTRICT, MOHAWK, NY

Mr. LADD. Thank you, Mr. Nowak. Thank you, Mr. Boehlert.

My name is John Ladd. I am here representing Dolores Harrelson, the president of the Public Works and Economic Development Association [PWEDA] who is unable to be in Washington today. I am a past president of PWEDA and presently serve as member of the board of directors. I am also executive director of the Mohawk Valley Economic Development District, located in Mohawk, NY, and am vice president and chief executive officer of the Mohawk Valley Rehabilitation Corp. which is a very active revolving loan fund, funded in part by the Economic Development Administration and by the five member counties of the Mohawk Valley Economic Development District. I want to thank you for the opportunity to testify on H.R. 10.

Our association was formed in March 1981 for the express purpose of advocating economic development programs that create or save jobs. Our membership consists of multicounty organizations, more commonly known as economic development districts, small to medium sized businesses and industries and local elected officials.

We believe that economic development is good for the country because it promotes jobs, hence, we support any effort or initiatives that lead to that end. For that reason we support the concepts contained in H.R. 10. We feel that the idea of focusing on efforts to promote jobs in rural America is a good one because the rural scene has changed over the years. It is timely that a bill such as H.R. 10 is now being considered.

I am very concerned over the current state of the economy as it relates to economic development, particularly in the Mohawk Valley of New York State.

At this point in time, our economy has been taking a beating for 5 long years. There is considerable unemployment among our construction trade unions. The number of unemployed members ranges from 50 percent to 80 percent. The situation does not look good. Many unemployed members have exhausted their benefits. There are no extensions for unemployment benefits in the near future. The prognosis is not good.

Our overall unemployment situation is no better than it was in 1980. In fact, our labor force is in worse shape because the most significant losses have occurred in the number of people employed. We are losing tax-paying wage earners. In our more distressed counties, the unemployment rates are at an all time high of 15.6 percent.

In our supposedly more stable SMSA, Utica-Rome, NY, the real unemployment situation is extremely bleak. The official 1984 unemployment rate was 7.4 percent. However, in 1984, 3,100 people ran out of unemployment benefits and were taken off the rolls. It is the concensus of local developers and labor force specialists that 95 percent of these people did not find work in the area and are currently unemployed. If these people were added to the number of unemployed in the SMSA, the unemployment rate would rise to 9.3 percent.

During the last 5 months, over 1,700 people have been laid off from local industries. These layoffs, in turn, should generate an additional 1,200 layoffs. This translates into another rise in local unemployment rate to approximately 10.9 percent. The most disheartening aspect of many of these layoffs is that they appear to be aimed at maintaining adequate profit margins. A significant number of the layoffs are the result of imports which are decreasing companies shares in national markets. In other words, the bottom line of the balance sheet is being maintained at the expense of American jobs.

Another bleak area in our local economy involves agri-business. I stress agri-business because whatever impacts our local farmers, impacts the largest sector of our economy. Low commodity prices, high credit costs, surplus milk production, an ever-shrinking margin of profit, cash-flow problems, competition for good land, Government regulations and rising machinery, seed and fertilizer costs affect most farm businesses in our area. The short term does not appear too promising. Despite the high costs, there is a reduction in income. There is evidence of sellouts; however, this is only preliminary.

Another critical segment of our economy involves public infrastructure needs. During the summer of 1984, we made a survey of 149 local governments in our district to determine what their public works needs for the short term will be. The results were a list of over $122,277,000 in projects. Of this figure, 22 were water projects at an estimated cost of $36 million. The most costly projects involve the disposal of wastes. The estimated costs ran well over $34 million. These figures point out the deteriorating condition of our public infrastructure and the critical need in our predominantly rural area.

The long-term deterioration in our economy is further seen in the private sector. We have been the number of business bankruptcies increase to 25 percent of all bankruptcies filed. In our district last year there were 1,079 bankruptcies, of which 25 percent were small businesses. Since 1980, the numbers have remained constant, rather than decline. Critically needed money for working capital and startup operations in businesses is at a premium. We are experiencing an increase in the number of requests under our revolving loan fund, MORECO. There appears to be a rise in the number of entrepreneurs who are attempting to provide local contract work to major local firms. More often than not, these people were at one time associated with the prime contractor.

This has placed increased demands on local business financing agencies. Our revolving loan fund has been extremely successful. We have made over $2.5 million in loans to 70 businesses. These have resulted in creating over 1,600 jobs. Despite these successes, we are finding that the demand for this type of financing continues to increase.

I urge you to continue funding the various programs dealing with economic development in the United States. They satisfy an urgent need in this country. We must stimulate activities which retain jobs and encourage activities which create jobs. Our district has been extremely successful in developing public works projects which create and retain critically needed jobs. Our success with EDA business development loans speaks for itself. Our revolving loan fund has been established at a critically needed time. While money is not always an effective measure of viability, we have funneled more than $58,000,000 into the region, creating more than 10,000 jobs and saving over 15,000 jobs with an economic impact of more than $114,000,000.

We feel that the success of programs such as ours are critical to any agenda for economic development. We also feel that our success lies in the effectiveness of the Economic Development District Program. It appears in bill H.R. 10 that stronger support should be included for economic development districts across the country. They have proven to be an expert delivery system for all programs of community and economic development not only in rural America, but in many of the small metropolitan areas of the United States. For the small amount of money involved, these districts should be the exclusive delivery system for almost every major Federal program in the United States. Unless the language as contained in the Public Works and Economic Development Act of 1965, as amended, which addresses these districts, is included in this bill, I feel that you are weakening the entire delivery system for economic development in the United States.

Having the States administer block grants is not the answer. The amount of money that would trickle down to the local communities in this case would be minimal. A significant portion of the program funding would be eaten up in overhead charges. This has been the case whenever States administer programs, particularly those which deal with non-Metro areas. In the interest of rural America, I do not believe that block grants for economic development should be made to the States. I beseech you as a committee to strengthen the wording in support of economic development districts.

Mr. **Nowak**. Thank you very much for your statement. We appreciate the additional information that you put together for the committee's consideration. In looking at the last page of your addendum, you have included a statement on the impact of job producing projects funded by Economic Development Administration in Arkansas. When we look at this, is this the culmination of all those projects for the 20 years that EDA has played a role in Arkansas?

Mr. **Ladd**. Yes, this was put together by the State association out there and it's very accurate. Dolores Harrelson couldn't be here so she sent this to be put in my statement.

Mr. **Nowak**. I think it's really a statement which confirms some of the findings of this committee back 3 or 4 years ago when we attempted to evaluate the results of economic development programs. When you look at the results of the 447 projects, you created 79,630 jobs. The annual taxes generated is about $129 million each year. You're looking at a program that, over all of the years it's been in existence, has invested $165 million and each year generates over $129 million in taxes. We can truly say that the program over all of the years has paid for itself many times over just on the basis of net return on the invested dollars.

I think if we had others that had similar experiences with the program, we could rebut the premise that many use to eliminate this program, that it is a complete waste of Federal funds and there's no return at the other end. I think this statement and the experience of many others will really change some people's opinion.

Mr. LADD. In my district, we've never had what the Reagan administration is told about the bad projects. We have never had a pork barreler where money was thrown away, to my knowledge. I've been on the job since EDA started and I know there are some bad projects across the country. We will attempt to put together some figures for you for other States.

Mr. BOEHLERT. Mr. Chairman, if you will yield for just a moment, I can testify to that fact that, in the Mohawk Valley Economic Development District, we've had only good projects. We have a whole list of other projects we'd like to have funded.

Mr. LADD. Thank you, Mr. Boehlert.

Mr. NOWAK. I appreciate the thoroughness of your statement. We're going to keep the record open and more of that type of evidence as to the results of this program would be appreciated. We certainly want to make that a part of this record. Many people seem to have forgotten the concrete results that we produced.

Mr. LADD. I would just like to address one thing. Mr. Towns asked the question on revolving loan funds. Our revolving loan fund is—our cost per job is $1,155 per job. We've had a tremendous success. We don't take the place of a bank, but we put that money in there that a company needs that they can't get financing for otherwise. It's been a very successful fund. We'd be glad to give you more figures on that, too, if it would help you.

Mr. NOWAK. We're going to request the cities to try to put their information together as well as the counties involved. When you divide the number of jobs created into the total amounts invested, we're creating jobs for just about $2,000 of EDA money per job, which is a very low amount when you consider any other program the Federal Government runs. I don't think even SBA or some of the others have that kind of a low ratio. I hope that we can develop that along with the Governor's associations and the other groups that have testified here to bring forth that kind of hard, concrete evidence to be included in this report.

Congressman Clinger.

Mr. CLINGER. Thank you very much, Mr. Chairman. Thank you, Mr. Ladd, for your always excellent testimony with regard to economic development policy.

You have outlined very clearly the needs that exist in New York State with regard to infrastructure, economic development activity and the rather large cost connected with those needs. Again, I refer to the chart that appeared in USA Today which would indicate that New York State is contemplating a surplus of about $102 million. I'm wondering if the State has shown any inclination to utilize the surplus or has recognized that there is substantial need out there for infrastructure improvement, rehabilitation, and so forth, and would anticipate devoting any of that surplus or other funds toward economic development activities.

Mr. LADD. First of all, Mr. Clinger, I question that $102 million. It depends on which party is projecting it and where it's coming from. I haven't seen any surpluses in New York State at the present time. I know that if the budget is adopted by one party, there would be a surplus. I want to see that budget first before I would comment on it.

In answer to your question, no, the State of New York has very little money for economic development in the State. They have a loan program. They have a large bond issue for transportation which is doing very well. For the infrastructure, we're trying to convince them now in Albany that they should float a bond issue to take care of the solid waste crisis in New York State and for water problems. In the last 2 weeks, I've been confronted with five areas that have got very serious water problems. They're under citation by the State health department and they can't afford to bond themselves or anything else to raise the money. I don't see the State of New York coming in with any money to help us. They don't do it now and I don't see any money coming in in the future, as far as any heavy money for economic development in the State of New York.

Mr. BOEHLERT. Will my colleague yield?

Mr. CLINGER. I'd be happy to yield.

Mr. BOEHLERT. I think the State of New York is in a catch-22 situation. First of all, everyone seems to acknowledge there is a surplus. The amount of the surplus seems to break down along party lines. The fact of the matter is New York has been in the forefront of providing so many essential services to the people within the State, that it's run up sizeable bills for these various programs and it's had to pay for them. The way it's decided to pay for them is to increase the taxes. When I talk about a catch-22, New York legitimately has this very difficult choice to make. If we proceed, and I hope we don't, at the Federal level to decimate such programs as those under the Economic Development Act and we call upon the individual States like New York to pick up a greater share of the local burden, that will prevent New York from doing what I think it absolutely must do to remain competitive, and that is to reduce the tax burden within the State. We can pump tens of millions of dollars into economic development programs, like Mr. Ladd has, but we're not going to have much inducement to job creation and new industry if we continue to have to tell these various people we're dealing with that the tax burden is as high as it is in New York.

I think it's incumbent upon us not just because I'm somewhat parochial and because I'm a deep believer in my homestate, but because I think economic development is an important national issue and we must proceed with this program.

Mr. CLINGER. Thank you, Mr. Boehlert. I agree with you. My concern is that we have seen the States and local governments reduce their investment over time. I think one of our objectives has to be to reverse that trend. We've got to arrest the decline of Federal funding for infrastructure development, but I think we have to reverse the trend of State and local governments and encourage them to increase their investment in these areas. The problem is not going to go away. It's apparent that we are in a catch-22 at the

Federal level, as well. We have this enormous deficit to deal with and it's apparent that we cannot increase the amount of money that we dedicate to these purposes. The problem is that infrastructure is collapsing and we've got to come up with some new ways of financing that overwhelming problem of repair and rehabilitation. I guess that's my question. How can we provide the kind of incentives that would encourage State and local governments to recognize that they must be a participant in this process.

Mr. **Nowak**. Congresswoman Johnson from Connecticut.

Mrs. **Johnson**. What do you think of the 50 percent match provision in H.R. 10?

Mr. **Ladd**. We can live with that. We've been very fortunate in our district that most of our grants have been at least 70 or 80 percent. If we can get 50 percent of the grant and can get it at the time we need it, we can do it. Because, we can go to the Farmer's Home, if they stay in business, and get the loan for the match on the other side or general obligation bonds.

Our biggest problem is distribution of these funds in a timely fashion.

Mrs. **Johnson**. Very interesting point. If we have minimal funds to distribute we ought to be at least capable of distributing them promptly if we are going to get the maximum effect from them.

As to the development strategy requirement in H.R. 10, do you see that as a problem?

Mr. **Ladd**. No, I don't. We have an overall economic development program and we update it every year. The only problem is when you get sudden severe unemployment. We've had seven companies with major layoffs in the last 6 months. There's no way we could comprehend that in a strategic plan. There's got to be a window some place where we can come back in and address that problem under something like the title IX wording.

Mrs. **Johnson**. I just wanted to thank you for your recommendation that we strengthen the wording in support of economic development districts. I do think that we need to be more sensitive to how we send money down and aggregate them in such a way that they can be effective. We'll have to look at this from the point of view of other States that don't have economic development districts, but have other mechanisms instead and see if we can't consolidate some of those efforts. Thank you.

Mr. **Ladd**. My total budget for my district is about $300,000. Of that, EDA contributes $69,000. It's a very small but critical portion of the total budget. It allows me to know that I can keep at least a couple of paid staff members. The rest of the money comes from the counties and towns and cities in my district. They are very large contributors to my district program. That small portion is a critical part.

Mr. **Nowak**. Congressman Boehlert.

Mr. **Boehlert**. Mr. Ladd, I'm sure you're aware of one of the basic criticisms of EDA and that it is far too easy for too many jurisdictions to qualify for eligibility. We now find ourselves with a program that we really intended to deal with the problems of unemployment and underemployment where they were most severe. Now approximately 85 percent of the Nation qualifies, including many areas of the Nation where there's relatively full employment. Would you address yourself to the subject of targeting?

Mr. LADD. I don't think we have any problem with targeting. You can't cut out a program immediately when the employment rate drops, but I think there should be some kind of legislation that cuts that back down so that you get away from that. If you get an area where the economy picks up and the unemployment rate drops to 4 or 5 percent, then I think there should be a cutback. One of the ways they could do it is to cut back on the percentage of the grants that would be made.

Mr. BOEHLERT. Would you ever go so far as to decertify an eligible area or would you just put it on hold?

Mr. LADD. You could put it on hold. Certification takes too long. It takes a year or a year and a half to do. You might get hit hard again during that time by a major layoff. I think there can be something worked out by using common sense. There's a way of doing it and I think it should be done. I don't think the whole United States should be eligible for every EDA application that goes in.

Mr. BOEHLERT. I agree. Title IX is a title that's extremely important to me and I know it is to you. We have to have some immediate response capability when there are instances of a dramatic and sudden turn for the worse. What type of emphasis would you give on the need for additional funding in this area?

Mr. LADD. It's very critical because right now we should be in a title IX. There's so little money there, I don't know if we can get one or not. We have major layoffs where we should have a title IX, and there's only $5 million in the fund this year. We used it once and it was very successful when Griffiths Air Force Base was going to phasedown. I think it's very critical and I think there should be more money in it.

Mr. BOEHLERT. Thank you and thank you for the outstanding job you've done over the years.

Mr. NOWAK. Thank you again for your testimony.

Mrs. JOHNSON. Mr. Chairman, could I ask one more question? I didn't gather from your testimony that you opposed H.R. 10. I understand you do——

Mr. LADD. No I don't. I have no intention of opposing it. It should be amended to strengthen it.

Mrs. JOHNSON. I'm glad I cleared that up.

Mr. NOWAK. Thank you very much, Mr. Ladd. In the interest of time, we'll let you go now for your next appointment and we appreciate your testimony.

At this time, we will recess for 15 minutes for the vote on the House floor.

[Recess taken]

Mr. NOWAK. We'll have Mrs. Johnson with us in just a few minutes. We will start our testimony with a panel consisting of Dr. Sam Dayton, Jr., Georgia Mountains Planning and Development Commission, Gainesville, GA; Mr. Howard J. Grossman, executive director, Economic Development Council of northeastern Pennsylvania, Avoca, PA; Mr. Bob Sheperd, executive director, Land O'Sky Regional Planning and Development Council, Asheville, NC; and

Mr. Gatliff Craig, executive director, Cumberland Valley Area Development District, London, KY.

I welcome you before the committee and your statements will be entered into the record in their entirety.

Let me first call on Dr. Sam Dayton, Jr., to testify before us.

The full text of your prepared statements will appear in the record at this point.

[Statements referred to follow:]

A PRESENTATION TO THE ECONOMIC DEVELOPMENT SUBCOMMITTEE OF THE HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

By Sam F. Dayton, Ph.D.
March 26, 1985

Good Morning! I am pleased to be with you to offer my thoughts and insights on the problems and potentials of the Appalachian Region.

First, let me introduce myself. I was born in Georgia Appalachia during the years of the Great Depression. Years later, I found that I had no difficulty in understanding what I studied about my native region because I had experienced virtually every characteristic of the Appalachian syndrome as I grew up. I didn't need to be taught that Appalachians were forced to migrate to such Gateway cities as Cincinnati to find work. An Aunt, an Uncle and five first cousins from Towns County, Georgia had already shown me that because they had to do it. That movement has been characterized as the greatest migration in history - and it probably wasn't good for either the migrants or the destination cities.

I didn't need to be taught about the poor health care or inadequate roads of my native area because a summer trip to visit relatives when I was six resulted in a broken leg for my older sister and a two-hour trip to the nearest medical facility over a road that was partially paved and often

UNPAVED. THE ROAD, INCIDENTALLY, IS NOT REMOTE. IT IS ONE OF THE MAJOR THOROUGHFARES OF MY REGION.

I DIDN'T NEED TO BE TAUGHT THAT THE CHILDREN OF MY REGION HAD TO LEAVE TO COMPLETE THEIR EDUCATION OR THAT THEY TYPICALLY SPENT THEIR PROFESSIONAL CAREERS ELSEWHERE ONCE THEY LEFT. THAT WAS MY OWN EXPERIENCE.

JOHN FISCHER, THE ASSOCIATE EDITOR OF HARPER'S MAGAZINE, VISITED ME AND MY REGION IN 1972. IN THE NINETEEN PAGES THAT HE DEVOTED TO A DISCUSSION OF HIS VISIT, HE WROTE IN PART:

> "DURING THE YEARS OF THE GREAT DEPRESSION, I GOT TO KNOW GEORGIA PRETTY WELL, BECAUSE I THEN WORKED FOR A GOVERNMENT AGENCY THAT WAS TRYING TO DO SOMETHING FOR SHARECROPPERS, FARM TENANTS, AND OTHER POOR PEOPLE IN THE SOUTH. I FOUND IT THE MOST DISCOURAGED AND DISCOURAGING STATE I HAD EVER SEEN."

FISCHER WENT ON TO SAY, THAT IN THE LATE 1960'S AND EARLY 1970'S, HE BEGAN TO GET WORD THAT THINGS WERE CHANGING IN MY REGION. HE SAID:

> FOR A LONG WHILE, I DIDN'T PAY MUCH ATTENTION TO SUCH TIDINGS, BECAUSE I COULDN'T BELIEVE THAT ANYTHING FUNDAMENTAL WOULD CHANGE IN GEORGIA DURING MY LIFETIME. RECENTLY, HOWEVER, I BEGAN TO GET SIGNALS THAT THE STATE NOT ONLY WAS CATCHING UP WITH THE REST OF THE NATION, BUT IN SOME WAYS WAS ACTUALLY

> PUSHING INTO THE LEAD. IT HAD, FOR EXAMPLE, COME UP WITH SOME POLITICAL AND SOCIAL IDEAS OF MARKED ORIGINALITY. MOREOVER, THEY HAD WORKED SO WELL THAT THEY WERE RAPIDLY SPREADING INTO OTHER STATES. SINCE FRESH IDEAS OF THIS TYPE HAVE BEEN IN SHORT SUPPLY FOR QUITE A WHILE, I DECIDED TO GO THIS WINTER TO SEE FOR MYSELF. EVERYTHING I HAD HEARD TURNED OUT TO BE TRUE, AND THEN SOME."

WHAT FISCHER DID NOT FIND WAS A REGION WHICH HAD SOLVED ITS MASSIVE PROBLEMS. WHAT HE DID FIND WAS AN AREA THAT WAS DOING SOMETHING ABOUT THEM, HOWEVER. THE "POLITICAL AND SOCIAL" INNOVATION THAT HE REFERRED TO WAS THAT OF THE LOCAL DEVELOPMENT DISTRICT, A GEORGIA INVENTION AND GIFT TO THE NATION. OUR GENERAL ASSEMBLY HAD DETERMINED IN 1960 THAT GEORGIA'S CITIES AND COUNTIES WERE SO SMALL AND BUDGETARILY POOR THAT THE ONLY WAY IN WHICH THEY COULD HAVE THEIR OWN PROFESSIONAL STAFF WAS TO BAND TOGETHER INTO DISTRICTS AND POOL THEIR RESOURCES.

OF COURSE, WE KNOW THAT THE LOCAL DEVELOPMENT DISTRICT LATER BECAME THE HEART OF THE DELIVERY SYSTEM FOR THE APPALACHIAN REGIONAL DEVELOPMENT PROGRAM.

NO OTHER FEDERAL PROGRAM HAS HAD THE IMPACT ON MY REGION THAT HAS BEEN ACCOMPLISHED BY THE APPALACHIAN REGIONAL COMMISSION. WE HAVE BEEN PLAYING "CATCH UP" IN SOCIAL, EDUCATIONAL AND ECONOMIC TERMS SINCE 1965. FOR AN AREA THAT HAD

SEVERAL COUNTIES WITH FAMILY INCOMES OF LESS THAN FIFTY PERCENT OF THE NATIONAL AVERAGE IN 1960, WE NOW HAVE ALL OF OUR COUNTIES BETWEEN SIXTY AND EIGHTY PERCENT. NOT AS BAD AS IT USED TO BE - BUT STILL NOT GOOD ENOUGH. WE MUST CONTINUE TO DIVERSIFY OUR ECONOMY AND ATTRACT BUSINESSES THAT CAN OFFER BETTER WAGES TO OUR PEOPLE. TO DO THAT, WE WILL NEED TO INCREASE THE CAPACITIES OF OUR WATER AND SEWER SYSTEMS AND TO LOCATE MORE SUITABLE INDUSTRIAL SITES WHILE AT THE SAME TIME KEEPING A WATCHFUL EYE ON OUR FRAGILE MOUNTAIN ENVIRONMENT.

OUR ROADS ARE MUCH BETTER NOW. AT LEAST, THE PRINCIPAL ONES ARE PAVED. MY AREA WAS THE CLASSIC APPALACHIAN SITUATION RELATIVE TO TRANSPORTATION. BECAUSE OF TOPOGRAPHY, EARLY ROADS AND RAILROADS SIMPLY BYPASSED THE AREA. SEVEN OF MY THIRTEEN COUNTIES HAVE NO FOUR-LANE SECTIONS OF ROADS. THE DEVELOPMENTAL HIGHWAY SYSTEM IN GEORGIA IS STILL INCOMPLETE.

AS WITH A CANCER PATIENT WHO IS RELEASED BEFORE BEING COMPLETELY CURED, I FEAR THAT MY REGION OF SOUTHERN APPALACHIA COULD EASILY LAPSE BACK INTO THE MASSIVE PROBLEMS WHICH BESET IT BEFORE OUR PROGRAM OF FEDERAL AND STATE INTERVENTION AIMED AT MAINSTREAMING THE AREA AND ITS PEOPLE.

THE SOUTHERN REGIONAL COUNCIL RECENTLY REPORTED THAT POVERTY IN THE SOUTH INCREASED FROM 1979 TO 1984 WITH A DRAMATIC AND UNPRECEDENTED JUMP. THE NUMBER OF POOR IN OUR REGION IS NOW AGAIN WHAT IT WAS TWENTY-FIVE YEARS AGO AND THE RATE OF POVERTY IS WHAT IT WAS IN THE EARLY 1970'S.

THE REASONS FOR THIS IN MY REGION ARE OBVIOUS. TEXTILE MILLS MIGRATED FROM NEW ENGLAND TO THE FOOTHILLS OF THE MOUNTAINS IN MY REGION. TEXTILE EMPLOYMENT DECLINED BY OVER ONE THOUSAND JOBS BETWEEN 1982 AND 1983 ALONE IN MY THIRTEEN COUNTIES. FOREIGN COMPETITION IS DEVASTATING THIS SECTOR OF OUR ECONOMY. WE MUST CONTINUE TO DIVERSIFY.

EVEN WHERE WE HAVE DIVERSIFIED, WE HAVE A CHALLENGE. THE FIRST WAVE OF NEW JOBS HAS, IN MANY CASES, CONVERTED CONDITIONS OF UNEMPLOYMENT TO THAT OF UNDEREMPLOYMENT - MANY PEOPLE SIMPLY DON'T EARN ENOUGH TO LIVE DUE TO LOW WAGES OR LESS THAN FULL-TIME WORK. THE LIST OF FASTEST-GROWING OCCUPATIONS INCLUDES SUCH CATEGORIES AS FOOD SERVICES AND GENERAL LABORERS AND SIMILAR TITLES. WE STILL HAVE A LONG WAY TO GO TO MAKE OUR DISTRICT ECONOMY MORE MATURE.

BECAUSE OF OUR OWN BOOTSTRAPS EFFORTS AND THE INVALUABLE ASSISTANCE OF THE APPALACHIAN REGIONAL COMMISSION, LIFE IS DRAMATICALLY DIFFERENT IN MY NATIVE AREA TODAY. WE DO HAVE BETTER HEALTH CARE, BETTER ROADS, BETTER EDUCATIONAL FACILITIES, MORE JOBS AND MORE PEOPLE. AS WE PROGRESSED OUT OF OUR REGIONAL DEPRESSION, THE NATION PROGRESSED EVEN FASTER, HOWEVER. WE STILL FIND OURSELVES PLAYING "CATCH UP". TO EXPRESS MY OWN POSITION ON THE APPALACHIAN REGIONAL DEVELOPMENT PROGRAM, I LIKE TO PARAPHRASE MY CONGRESSMAN, THE HONORABLE ED JENKINS, AS HE SAID, "WHEN MY AREA CATCHES UP WITH THE REST OF THE NATION, I WILL STOP SUPPORTING THE APPALACHIAN REGIONAL COMMISSION."

THANK YOU FOR YOUR TIME AND ATTENTION.

economic development council of northeastern pennsylvania
proximity to market . . . a competitive edge.

STATEMENT OF THE ECONOMIC DEVELOPMENT COUNCIL OF NORTHEASTERN PENNSYLVANIA (EDCNP) BEFORE THE HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION, SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, ON THE IMPORTANCE OF THE APPALACHIAN REGIONAL COMMISSION (ARC)

March 26, 1985

My name is Howard J. Grossman. I am the Executive Director of the Economic Development Council of Northeastern Pennsylvania (EDCNP), a local development district of the Appalachian Regional Development Program. I am the immediate Past President of the Development District Association of Appalachia and the current Chairman of the Economic Planning and Development Council of Pennsylvania, the Commonwealth's State Association of Regional Councils.

On behalf of the Board of Directors of the Economic Development Council, I wish to extend our deepest gratitude to the House Committee on Public Works, Subcommittee on Economic Development for the opportunity to speak on the importance of the Appalachian Regional Commission (ARC) to the economic vitality of Northeastern Pennsylvania and the thirteen state Appalachian Region.

Creation and History of the Economic Development Council of Northeastern Pennsylvania: A Regional Multi-County Private-Public Partnership Model

The EDCNP is a private, non-profit research planning and development organization composed of a 322-member Board of Directors representing a wide spectrum of interest groups in Northeastern Pennsylvania. The Council serves the private and public agencies in the seven counties of Northeastern Pennsylvania which include Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill, and Wayne Counties.

The Council was incorporated on September 23, 1964 as a private, non-profit research and service organization. The founding members, who were development leaders from Lackawanna and Luzerne Counties, thought that a regional organization was needed to coordinate the economic development activities of the area and to serve as a catalyst and coordinating mechanism to bring together the various economic and planning groups having common interests. Initial operational assistance was assembled from a variety of sources including private sector contributions, utilities, the Ford Foundation, Scranton Area Foundation, and the Area Development Administration of the United States Department of Commerce.

In August of 1965, the Public Works and Economic Development Act was passed. It, in effect, replaced the Area Redevelopment Administration with the Economic Development Administration (EDA), and established a program designed to achieve what the Council had initiated as one of its objectives - that of a coordinated approach to multi-county economic development. Concurrently, the Appalachian Regional Development Act was passed which also established the multi-county or District approach to economic development.

With the EDCNP having been established and functioning on a multi-county basis, its members were encouraged to become the representative agency for the seven-county area delineated by the Pennsylvania Department of Commerce as the "Northeastern Pennsylvania Development District."

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As a prerequisite to being designated as the District organization under both the EDA and ARC programs the Council reorganized its Board of Directors to include a cross-sectional representation of groups from each of the seven counties of the District. On December 9, 1966, the Pennsylvania Department of Commerce certified the Council as the representative of the Northeast Pennsylvania Development District (Region #3).

On June 19, 1967, formal reorganization of the Council took place as well as the enactment of new Bylaws by a new Board of Directors.

Reorganization

In May and June of 1978, the Council went through another major reorganization. Today, the Council (as noted earlier) is guided by a 322-member Board which includes a 76-member Executive Committee representing industry, labor, government, general business, the professional sectors, and people from all walks of life in the seven counties. The varied services available from the Council are administered by a twenty-seven (27) member professional and clerical staff.

Goals of EDCNP

In seeking to establish a base for economic change in Northeastern Pennsylvania, the EDCNP adopted seven major goals, all of which have been consistently adhered to in its 20 year history. The seven major goals include the following:

1. Diversify the economy (with the sub-goals of improving employment opportunities and raising per capita incomes).
2. Development of human resources with the sub-goals of improving education and training programs and increasing social services).
3. Improve the physical environment (with the sub-goals of conserving and developing natural resources, improving community facilities, and enhancing the appearance of communities).
4. Modernize local governments.
5. Diversify the transportation system.
6. Increase housing quality and supply.
7. Increase involvement in public affairs (with the sub-goals of encouraging the solution of regional problems and providing public information on regional progress).

All of the objectives and goals are directed to the number one problem -- finding new jobs.

Role of the Appalachian Regional Commission In Stimulating Economic Expansion in Northeastern Pennsylvania

Northeastern Pennsylvania represents the 58th largest metropolitan area in the United States. Historically, its economy was based on the production of anthracite coal but when that industry sector vanished as a major income producer, the region lost 250,000 people between 1930 and 1970. Unemployment was rampant and out-migration of the region's youth was the norm rather than the exception. The region's landscape was scarred by the after-effects of anthracite mining. The basic infrastrucure needed to attract as well as support existing business was woefully inadequate and investment in human capital was sorely lacking.

Today, Northeastern Pennsylvania can take pride in its remarkable recovery from those dark days. The region has a relatively diversified economic base not dependent upon a single industry for its well-being. The region's population now includes over 907,000 persons, having experienced a 33,000 population increase between 1970-1980, representing the first regional population increase in over 50 years.

This is not to say no problems exist. Unemployment is still far too high, per capita income averages still lag behind national and state figures, and the need still exists to create new employment opportunities through joint public/private sector initiatives.

Throughout the past twenty (20) years, the ARC Program has performed a key role in fostering an improved economic climate in Northeastern Pennsylvania. It is unnerving to imagine what the present condition of Northeastern Pennsylvania would be, without the investments of the ARC Program. Through its emphasis on decision-making at the grass-roots level by both the public/private sectors, and with its leveraging effect, it has served this region's needs very well in a cost effective manner.

I would like to take this opportunity to elaborate on the actual investment made possible via the Appalachian Program:

. Area Vocational Technical Schools

In order for a region to recover and compete in the marketplace, investment in human capital is essential. Recognizing this, ARC through its Section 211 Program has invested $7,095,949 in the construction and tooling of nine vocational technical schools in our region with a total project cost of $40,188,709. There are currently 12,000 students enrolled in these school with over 22,000 students having been graduated and contributing to the region's economy. In addition, the existence of these schools and the availability of a well trained labor force have contributed greatly to the attractiveness of the region for business and industry wishing to expand.

. Mine Area Restoration

Since its inception, ARC has invested $50,179,125 in forty-three (43) projects for mine area restoration activities in Northeastern Pennsylvania. An additional $20,018,677 in local and State funds have been employed to help Northeastern Pennsylvania recover from the ravages of past anthracite mining.

ARC dollars have been utilized to eliminate critical threats to both life and property caused by underground mining activities, effectuate more productive land uses through the reclamation of stripped mine land and enhance and restore the physical appearance and beauty of the Region. ARC assistance via its Mine Area Restoration Program has contributed to economic development initiatives in Northeastern Pennsylvania by helping to overcome these physical detriments and by adding materially to the Region's competitive attractiveness.

Two examples of the effects of these programs are the: 1) Mahanoy Area Industrial Park located in Delano Township, Schuylkill County. In this case, a strip mine area was restored as an industrial park creating the opportunity to locate five industries in the park with 305 new jobs and a total estimated annual payroll of $3.7 million. 2) Luzerne County Community College (LCCC) located in Nanticoke City, Luzerne County is presently located on a previous strip mine area. Using ARC funds to recover the land, a multi-million dollar college campus was constructed which offers educational opportunities to 3,070 students, and the creation of 218 full-time jobs with an annual payroll of $3,205,459. Since 1969, over 5,000 students have graduated LCCC with two (2) year associate degrees in-hand.

. Business Infra-Structure Development

Following the decline of the anthracite industry, many areas in Northeastern Pennsylvania found themselves looking at an unemployment rate in excess of 18 percent. Using a bootstrap approach and with financial assistance from the Appalachian Regional Commission, the region developed industrial parks, constructed shell buildings, and launched an aggressive marketing campaign to attractive new industries with new jobs to our region. ARC invested $4,268,510 in Northeastern Pennsylvania to construct access roads, water and sewer lines, storm drainage facilities, and site development activities. These investments resulted in the creation of nearly 10,000 new employment opportunities for residents of Northeastern Pennsylvania. In addition to these new jobs, site development activities have been instrumental in leveraging millions of dollars of private sector investment in capital expenditures, enhancing the area's tax base while returning revenue generated from operations back to the Treasury Department in the form of corporate and personal income tax.

. Transportation

Projects to assist our ailing mass transportation system, so vital to economic expansion, have also been addressed by ARC. $2,771,450 in ARC funds leveraged approximated $10,000,000 public/private sector funds in much needed transportation projects.

One of these projects, the Wilkes-Barre/Scranton International Airport, received $1,461,965 to improve the runway and expand the terminal building. These improvements led to its designation as an international airport and in-land port of entry which greatly enhances the region's ability to compete in the world market. It will also assist development efforts of the Eastern Distribution Center, an industrial park located adjacent to the International Airport. It should be noted that this Industrial Park houses Foreign Trade Zone #24, thus, providing another tool for stimulating economic expansion in the region.

From the fore-referenced investments in stimulating business development activities in this region, it is self-evident that ARC has performed a key role in improving the economic climate of Northeastern Pennsylvania. However, without corresponding improvements in the region's social/health care delivery network, the impact of these investments would not achieve their maximum potential. More importantly, basic human needs were being denied due to a variety of reasons including the lack of institutional entities to sponsor complex programs, inability to obtain start-up financing, and demographic considerations.

ARC recognized the needs and through the legislative process, enacted programs designed to fill key gaps in the region's health and social service delivery network, particularly in the areas of primary care, child day care programs and housing.

. Health and Child Development Program

Since 1973, ARC has made child day care and health care investments in Northeastern Pennsylvania, the overall objective being access to adequate health care facilities and services along with providing day care program for children with working parents.

Twelve years ago, the neonatal death rate in the City of Wilkes-Barre was significantly higher than that national rate. It was 28.6 babies per 1,000 live births as against the national average of 13.0 per 1,000. Today the rate is 10.9 in Wilkes-Barre as opposed to the current national average of 8.5. This important turn of events clearly parallels the initial ARC investments made in child and health care services for the Wilkes-Barre area.

The Primary Health Care Program under ARC has brought about a definitive redistribution of the family practice type physicians throughout the Northeast Pennsylvania region, developing a total of seven primary health care facilities serving an estimated rural service area population of more than 70,200.

Probably the most significant outcome of the Appalachian 202 Child and Health Care Program investment in Northeastern Pennsylvania has been that, each child and health care organization developed through ARC investments since 1973 is still in business today,and no longer receives any ARC dollars whatsoever.

without the initial ARC investments, it is very uncertain if these organizations could have survived their embryonic period.

To date, $4,592,539 under Section 202 have been invested in 45 child and health programs, representing continuous health care services for 70,200 individuals and continuous day care services for 1,800 infants, toddlers, and preschoolers. It is also estimated that these same continuous day care services have allowed over 900 participating parents to continue to work on either a full or part-time basis. The total number of direct jobs created ARC, Section 202 investments is estimated to be 400 in Northeastern Pennsylvania.

. Housing and Community Development

In terms of direct impact on housing development in the region, nineteen ARC authorizations were made since 1968 for the purpose of generating new housing for families with certain income limitations and for elderly and handicapped persons. Of these authorizations, ten were for Section 207 project planning loans (to be paid back to ARC out of mortgage proceeds), four each for Section 207 off-site and technical assistance grants, and one for an access road to a housing site. Although, in any given housing project, ARC money, due to its purpose, represents only a very small fraction of total development cost, it is most unlikely that any of the housing units constructed in Northeastern Pennsylvania with ARC help could have come about without it. A sample survey of six housing projects -- shows for these projects (which involve seven ARC loans and grants) a total investment of $46 per ARC dollar invested. The maximum return for a particular project was from an ARC planning loan which generated $293 of project cost per ARC dollar; the minimum was $11 per ARC dollar of site development money. They show that $525,400 ARC dollars (including nearly $125,000 returnable loan money) have generated about $24 million for new housing development and will provide apartments and nursing home units for over 2,000 persons. This amounts to nearly two dwelling units and four benefitting persons per $1,000 of ARC loan and grant money.

. Flood Recovery Program

In 1972, the greatest natural disaster in the history of the United States struck Northeastern Pennsylvania. Tropical Storm Agnes riveted the attention of governmental officials and private sector persons as personal hardships affected over 100,000 persons whose properties and life's savings were dramatically affected by the great disaster. Without the support of agencies such as the Appalachian Regional Commission (ARC), Northeastern Pennsylvania would never have recovered from the flood. Thirteen years later, the entire central business district of the City of Wilkes-Barre, 95 percent of the Borough of Kingston, and many other municipalities in what is called Wyoming Valley have completely recovered from this devastation through the largest urban renewal programs in the history of the nation. The Economic Development Council of Northeastern Pennsylvania (EDCNP) was designated as the lead long-range flood recovery planning agency and coordinated the recovery program by designation of the Federal Regional Council and the Commonwealth of Pennsylvania. Presentations were made before the Appalachian Regional Commission to obtain the support required for this massive undertaking. The results proved to be dramatic and dynamic despite the agonizing difficulties which the disaster presented to the region.

. Railroad Recovery Program

In 1973, a new disaster hit Northeastern Pennsylvania. Six bankrupt rail lines converged in the region including the Penn Central, Lehigh Valley, Reading, and others. A combination of federal support along with local private sector fund raising and strong State involvement enabled the partnership to help Northeastern Pennsylvania recover from what could have been a more serious economic disaster than that which Tropical Storm Agnes wrought in 1972. Again, the Economic Development Council of Northeastern Pennsylvania made a presentation before the Appalachian Regional Commission as to the disaster which threatened the region's economic stability. With over 65 percent of all job industries relying on some type of rail service at that time, thousands of jobs were at stake. A Railroad Task Force for Northeast Region was created with the staff of EDCNP providing the technical support to the Task Force. Former Pennsylvania Governor William W. Scranton became the first Chairman of the Task Force. The results since 1973 have been dramatic despite a second rail disaster when the Northeast Rail Services Act of 1981 permitted Conrail to abandon rail lines almost at will. Rising to the occasion, EDCNP caused a series of activities to take place to enable a new rail company to take over many of the abandoned rail lines. This company successfully operates today and holds a title to over 100 miles of rail line. Other rail companies have also taken over abandoned rail trackage and provide services to Northeastern Pennsylvania.

The Appalachian Regional Commission played a significant role in helping to overcome disasterous crises such as the flood recovery program and rail preservation program, along with other federal agencies in cooperation with state and local efforts. This partnership is the keystone of the Commission and is so effective that the Commission should be used as the model for the entire nation in coping with these types of disasters as well as ongoing economic revitalization programs.

. Innovative Uses of the ARC Program -- Enterprise Development Initiatives

When the pages turned to 1980, a new dimension was added to the ARC program. This was the Enterprise Development pathway. Pennsylvania, through its Department of Commerce and with financial and technical support from the ARC, began focusing considerable attention on small business development and to encourage each of the Appalachian councils in the state to undertake a full fledged Enterprise Development Program including but not limited to revolving loan funds, loan packaging, small business procurement opportunities, and much more. As a result of this focus, each of the seven Appalachian Development Districts in Pennsylvania have been equipped with technical abilities as well as financial resources to carry out a variety of regional programs of importance to small business. The economic recession of the early 1980's made it more apparent that new techniques were required to achieve economic change. Not only was enterprise development unfolding, but the need to reinvigorate basic industries such as steel, coal and others as well as create assemblies of new technological beliefs became important instruments for economic growth.

The Economic Development Council of Northeastern Pennsylvania was an important focus for institutional change in view of its past history of public-private sector participation and cooperation. Its already heavy emphasis on private sector functions in economic growth was redoubled as it sought to utilize every tool possible to achieve the expansion of small and medium sized businesses as well as preserve jobs whereever appropriate.

Enterprise development became an important symbol of economic growth and continues as the centerpiece of change. This could not have occurred without the fore-sight of the Appalachian Program and its innovative approach to economic development.

The major objectives of this Enterprise Development Program include the following:

Objective Number 1. To develop a capability for evaluating the commercial viability of proposed new products or processes through the pooling of new business ideas and professional review talent in Northeastern Pennsylvania.

Objective Number 2. To develop a capability for meeting financial needs of new ventures through the pooling of public and private capital resources.

Objective Number 3. To assist new and emerging industries to successfully "incubate" by providing low-cost operating space and through the pooling of facilities.

Objective Number 4. To assist small businesses and industries in operating more effectively and efficiently through the pooling of business support service.

Objective Number 5. To identify an ongoing specific area as enterprise development zones where the one-stop service capability could be focused.

As specific examples of the scope of activities to implement these fore-referenced objectives, the Council, in concert with ARC, has initiated the following programs.

Development Financing. To date thirty-two (32) businesses have received low-interest loans from the Economic Development Council via-its Revolving Loan Program financed with ARC and other funds. These loans have created approximately 1,000 net new jobs in this region since 1982. In Fiscal Year 1984 alone, $893,000 of Revolving Loan Fund dollars have leveraged over fifteen (15) million dollars of public/private sector contributions. It is estimated that these investments will create nearly 500 new jobs for residents of Northeastern Pennsylvania. The projected increased sales volume for these companies will be over $124,000,000 in a three year period. Equally as important, it will provide a certain rate of return on taxpayers' dollars in terms of increased revenue to local, state, and federal coffers.

Export Outreach Program

The Council has given direct assistance to local manufacturers to promote exporting for those firms who have no or limited experience in the overseas market. Large turnouts are attracted to the various workshops and seminars sponsored by the Council. Close to thirty (30) seminars have been held with the largest attendance being 130 participants. In addition, Council staff provides one on one counseling services to businesses which possess the ability and potential to enter new markets. In 1984 alone, the Council provided direct assistance to eight (8) manufacturers which resulted in nearly $900,000 of increased sales via the Export Outreach Program.

. Labor-Management Program

One of the Council's more recent enterprise development ventures is a Labor/Management Cooperation Program. This program has as its main objective the establishment of in-plant labor-management committees whose prime mission is to open lines of communication between both parties, promote productivity and quality of work-life issues, and defuse potentially sensitive problems before they enter the critical stage. Seven (7) such committees have been established since 1983. In one case, 250 jobs were saved due to the existence of the in-plant labor-management committee. In addition, the Council continues to work toward eradicating the false perception associated with the region's workforce present since the heydey of anthracite coal when violent strikes and confrontations between management and labor were routine.

. Industrial Waste

The industrial waste problem in Northeastern Pennsylvania revolves around the possible loss of jobs if sites for the disposal of non-hazardous industrial residual waste are not found in the near future. Literally, thousands of jobs are at stake, and the Council's Enterprise Development Program includes an element to locate a site or sites, develop the administrative mechanism to operate the sites, and establish a public information and education program to educate the public as to the seriousness of this economic, as well as environmental problem.

. Multi-Tenant Incubator Facilities

Throughout the past few years, the notion of establishing multi-tenant incubator facilities has received much attention. An incubator by definition is a physical facility in which units of space are leased by a tenant at below market rates. Management of the facility maintains or provides access to business development services for use by tenants. This allows the entrepreneurs to focus his/her attention on process development and utilize limited capital resources in conjunction with the end-product; thus enhancing their business potential.

The Council has been active in promulgating this economic development tool throughout Northeastern Pennsylvania. It has established a strategy for establishing incubator buildings within urban and rural growth centers in the region.

Council staff serve on the Luzerne County Incubator Advisory Council. It is anticipated that an incubator center will be established in the Greater Wilkes-Barre Area (Luzerne County) in the very near future as well as others in the Scranton, Nanticoke, and Pottsville areas.

. Enterprise Development Area/Zone Program

The Council has been active in assisting local units of government who desire to secure a designation as an Enterprise Development Area from the Commonwealth's Department of Community Affairs.

The Council has formulated a methodology for selecting Enterprise Development Areas in Northeastern Pennsylvania based upon economic development land use and demographic considerations. This methodology has been widely disseminated to various units of government in Northeastern Pennsylvania.

The main focus of attention has been geared toward two (2) urban areas in the region who have received planning designations under the Commonwealth's Enterprise Development Area Program.

Upon final designation, the various tools available under this Enterprise Development Program will be geared to these areas.

. Energy Conservation and Development

Part of the Enterprise Development Program is the designation of the Council as a Regional Energy Center by the Governor's Energy Council. This program enables area businesses to receive free energy surveys in order to accomplish energy conservation savings, thus reducing their operational expenses.

In Fiscal Year 1984 along, Council staff conducted 159 energy surveys of buildings utilized by businesses in Northeastern Pennsylvania. Aggregate energy savings are staggering and can only enhance the competitive posture of area businesses.

. SBA 503 Program

The EDCNP has completed several SBA 503 projects through its affiliated corporation - the Pocono Northeast Enterprise Development Corporation. Many more projects are expected in coming months.

. Venture Capital Fund

A new tool is on the horizon to help promote an effective economic development program. Through private sector commitments and a Commonwealth Ben Franklin Partnership technology grant, a Northeastern Pennsylvania venture capital fund has been organized. This new fund will grow to $10 million and provide equity financing and technical resources for small growth start-up companies and other ventures to create new jobs in our region and to establish many opportunities for specialized financing which otherwise would not be available to an entrepreneur. The EDCNP has already suggesteed projects which might fit the specifications for this new venture capital fund.

. Procurement Outreach Program

In order to assist area businesses enter new market areas, increase their level of sales and generate new employment opportunities, the Council, in conjunction with the Pennsylvania Department of Commerce, initiated a Procurement Outreach Program, designed to achieve these aforementioned objectives.

Since, its inception, Council staff has contacted over eight hundred (800) local businesses by mail, phone and personal visits. These efforts have resulted in an active caseload exceeding forty (40) local businesses.

Services offered by the Council include:

- Matching company products with federal government needs.
- Identification of mandated small business "set-aside contract opportunities."
- Identification of major federal purchasers of supplies and services.
- Access to current bidders mailing list.
- Location of military and civilian specifications.
- Identification of subcontracting opportunities.
- Assistance to eliminate other entry barriers to the federal marketplace.
- Information on future bidding opportunities.

These initiatives have resulted in nearly $1.7 million dollars of federal/state contracts awarded to nineteen (19) area businesses. It should be emphasized that these contracts represent new sales for area businesses which, heretofore, had no prior contact/experience with the federal/state marketplace.

- The Partnership Process

Beyond the commitment of federal grant and loan support for individual programs and projects which the aforementioned listing has portrayed, the single most important contribution which the Appalachian Regional Development Program has made to America has been the partnership process between and among federal, state, county, municipal governments and the private sector. Investments come about as a result of this partnership. Time and time again, the evidence has been accumulated to demonstrate that economic growth does not come about as a result of a single instance. It comes about because the private sector decides that a given region, area, or community contains the characteristics which dictate the investment of private dollars for economic gain. The Appalachian Regional Development Program personifies at the most advanced, sophisticated level possible, the interaction of public sector dollars to encourage private sector investments.

Even more important is the process by which decisions are reached as to new ways to encourage economic growth. In the system of government which currently exists in the United States, the Appalachian Regional Development Program is the finest intergovernmental private-public partnership ever invented. It typifies how other federal and state programs should be delivered, the attributes of which have been the hallmark of Northeastern Pennsylvania's regional multi-county process which has made the private sector a strong, vital partner in the total process between and among all levels of the public and private sectors.

Pennsylvania has taken this one step further in its Enterprise Development Program and in the initiation of a technology-based process which has now been emulated by other states. It is the program called the Ben Franklin Partnership which has as its framework, the same type of partnership process utilized and encouraged by the Appalachian Regional Development Program. This Partnership is now an integral part of the Council's Enterprise Development Program.

. Ben Franklin Partnership

Pennsylvania has adopted a technology based program called the Ben Franklin Program. The partnership utilizes a process similar to the Appalachian Regional Development Program by which higher educational institutions have been designated as advanced technology centers. A partnership evolves between and among the State of Pennsylvania, the private sector through businesses and industries, economic development agencies, chambers of commerce, labor organizations, and many others concerned with the use of technology and economic development. Four advanced technology centers have been established including Lehigh University, Penn State University, Carnegie-Mellon University/University of Pittsburgh, and the University City Science Center in Philadelphia. The advanced technology centers receive project proposals from many sources and each State dollar invested in the Ben Franklin Partnership, in turn, generates three or more private sector dollars, all of which are utilized to encourage new jobs in the State. The term "advanced technology," is utilized since the goal is to upgrade and modernize basic industries, as well as capture new technology based firms. It has a small business development focus and has generated more incubator centers than any other State in the union, as well as focusing on the three main elements for which the partnership was created:

1. Research and Development
2. Entrepreneurial Development
3. Training and Re-training of Employees

In a series of related programs through Pennsylvania's $190 million economic development bond issue, the State has created grant and loan incentives for the following activities:

1. Business Infrastructure Development Program
2. Updating of Vocational and Technical Equipment
3. Small Business Incubators
4. Pennsylvania Capital Loan Fund
5. Engineering Equipment Program
6. Minority Business Development Authority
7. Loans to Family Farmers
8. Employee Ownership Assistance Program
9. Recreational Improvement Funds
10. Conservation Corps Program

The Ben Franklin Partnership and $190 million economic development bond issue are strong components of Pennsylvania's enterprise development program. They are being emulated in other states; they have created more excitement in the Commonwealth for economic growth than has been seen in many years; they have already begun to achieve success in job development, but they can not stand alone. In many respects, the Appalachian Regional Development Program, as currently practiced in the Commonwealth of Pennsylvania, has helped to stimulate both the Ben Franklin Partnership and the $190 million economic development bond issue. The Appalachian Regional Development Program needs to be continued with a continuing focus on business and enterprise development in combination with programs similar to those which have been developed in Pennsylvania. It can be used in other parts of the nation as well who require specialized and targeted economic and development incentives. It should be continued as a way to stimulate new private sector initiatives - an example of which is mentioned next.

. Private Sector Initiative--Public Sector Responsibilities

EDCNP administers the largest (in term of dollars raised and number of members) private sector membership campaign for regional councils in the country. Focusing on local involvement, the Council formulated a Membership Program eight years ago which administers a campaign to raise at least $235,000 per year locally from the public and private sectors. Unlike similar organizations throughout the nation, a majority of these local funds are generated from the local private sector.

The Membership Program is administered through a Membership Planning Committee and a Campaign Committee which collectively set the yearly fund-raising goal. These committees direct over 100 volunteers and Council staff during a two-and-one-half month period to raise the necessary funds for meeting federal and state grant opportunities and for carrying out local programs without using governmental monies.

A membership fee schedule and pledge card are used to categorize organizations according to their resources and ability to be a member. In addition, the seven counties contribute 12 cents per capita. Over the years, the membership has increased to over 450 local public and private sector participants.

A 27-member staff, most of whom have been with the organization for five or more years, provides EDCNP's services. The staff have expertise in such fields as planning, economic development, business management, accounting, labor relations, credit analysis, phychology, landscape architecture and other areas which prove useful to the Council in accomplishing its goals.

The 322-member Board of Directors, composed of public and private sector persons, has been chosen to represent as many of the policy leaders as possible. Like many other organizations, the Council prepares a budget and a work program. Proposals for each project are brought before the 76-member Executive Committee for appropriate action.

Underlying EDCNP's entire structure and selection of services, is the theory that one organization should take an overall view of the region and be involved in a wide range of activities. This philosophy has spurred the Council over the years to develop programs which ordinarily might not evolve if it were a single- or dual-mission organization.

The Appalachian Regional Development Program has been the centerpiece for economic change in Northeastern Pennsylvania, in addition to the important and critical role which the Economic Development Administration has played. Northeastern Pennsylvania's private sector initiative philosophy permeates the entire organization and our decision-making process is built upon the foundations which the Appalachian Regional Development Program has provided. Enterprise development, while being a new term in relation to Pennsylvania's approach in utilizing Appalachian dollars, has been a Northeastern Pennsylvania keystone for twenty years. It was the private sector who came first to recognize economic growth needed to be attracted at a multi-regional scale. The public sector joined in, and the Appalachian Regional Development Act and the Public Works and Economic Development Act provided the glue which enabled this process to be so successful.

The job is not done, however, and these programs need to be continued and hopefully modeled after the new system which Pennsylvania has created with its positive and successful use of Appalachian Regional Development resources. The private/public sector partnership process is needed as much in the 1980's and 1990's as it was in the 1960's and 1970's. In fact, it is exactly what the Administration seems to call for in its emphasis on private sector initiatives. Only, in certain parts of the country such as that which is identified as Appalachia, the partnership process needs to continue to guarantee that private sector initiatives take place.

A more detailed picture of the private/public sector partnership is attached to this statement in the form of an article about the EDCNP, published in the summer of 1984 issue of the national publication, Commentary, issued by the National Council for Urban Economic Development.

. Other Economic Development Initiatives

Enterprise zones and enterprise development areas as practiced in Pennsylvania are being emulated in other states. The enterprise zone concept can be a successful venture and be part of a series of economic tools for growth and development purposes. EDCNP, therefore, supports and subscribes to Pennsylvania's Enterprise Development Program and the Administration's proposals for enterprise zones to serve both urban and rural areas in the nation.

Enterprise zones, however, can not stand alone as the major tool for economic growth. They must be buttressed and supported with other types of economic strategies, especially those based on the pioneering and innovative processes which the Appalachian Regional Development Program established and implemented.

There are other economic incentives which carry equally positive opportunities for economic growth including the Comptroller of the Currency and Federal Reserve Bank Community Development Corporation programs which enable a furtherance of private/public sector partnerships to improve neighborhoods and community and economic development lifestyles. These, and other types of federal incentives are necessary for areas such as Northeastern Pennsylvania to sustain themselves economically and to compete in what has become a highly sophisticated and highly competitive society for economic growth, beyond any which the federal government or other governments, for that matter, may have imagined even 20 or 30 years ago.

The 20th Anniversary of the Appalachian Regional Development Program and the Public Works and Economic Development Act represent an opportune time to reconsider those efforts which have worked and those programs which have not been successful and to utilize 1985 as a transition year to achieve a new economic strategy for the nation.

One of the most successful, if not the best, program in the nation's history is the Appalachian Regional Development Act, and we believe one of the most successful parts of that program has been Pennsylvania's enterprise development venture. Therefore, as part of this transitional year, the EDCNP strongly urges the continuation of the Appalachian Regional Development Program. The focus for the remainder of the 1980's into the 1990's should be enterprise development as practiced in Pennsylvania and extending that program and process to other parts of the nation requiring such assistance.

. National Economic Development Programs and Strategies--the Future

In a recent report issued by the Development District Association of Appalachia, dated February 23, 1985, and unanimously approved by the Board of Directors and membership of the Association which includes all 69 development districts in the 13-state Appalachian region, a series of recommendations were made pertaining to new economic strategies for Appalachia. The report was based on a questionnaire survey of Development Districts in Appalachia. Its title is, "Toward the Year 2000: Forging the Future of Appalachia." Among the findings of the report was a summary of accomplishments of the Appalachian Program in its 20-year history. These may be summarized as follows:

1. Infrastructure financing including water and sewer, industrial parks, vocational technical schools, primary health care centers, and others.
2. Establishment of the Appalachian Development Highway System.
3. Development of capacity building on the part of local public and private sector organizations such as local development districts to have the ability to provide technical assistance, planning and development resources, and intergovernmental cooperation. Many other accomplishments were cited.

A series of unmet needs were delineated ranging from the construction of water and sewer facilities to the completion of the Appalachian Development Highway System, and the need for venture capital and working capital for new and expanding business (in the form of revolving loan funds and seed capital funds).

Many others were identified.

Based on the results of this report, a series of recommendations ensued which represent a basic structure for an economic and development program to not only meet the continuing needs of Appalachia, but to consider similar processes for other parts of the Nation which may require some type of federal financial assistance. These recommendations are as follows:

- Federal funding should be made available to complete the full ARC finish-up proposal including the Appalachian Development Highway System.
- The federal government should not abandon support of areas which require outside assistance in order to make them competitive with the rest of the nation, but instead, should seek new ways to continue its partnership with states and local governments and the private sector to achieve a permanent stabilized economy for all distressed areas including Appalachia.
- Congress should consider taking all existing water and sewer grant programs and target these monies to distressed communities across the country so that the limited federal dollars available for water and sewer needs can be met in a more cost effective manner.
- The districts recognize the tremendous demands now placed upon state budgets, nevertheless the enormous need for development infrastructure and the decreased amount of federal aid available requires that state governments consider increasing their participation with their local governments in financing local development needs.
- As one alternative to increased federal aid, additional efforts should be made to demonstrate and publicize innovative methods to meet the existing and future needs for development infrastructure in Appalachia. This includes alternative water and waste treatment systems, privitization of a variety of public services and facilities, and alternative financing mechanisms.
- Appalachian states working with ARC and other funding sources should consider establishing enterprise development oriented capital loan funds and small business development programs to meet the need for new and small business creation in the Region.
- The Advisory Commission or Intergovernmental Relations should update their previous study on multi-state regionalism to study the ARC process and evaluate and assess its performance as a basis for recommending a similar process to be used in other federal and state programs.
- A similar study should be performed by the Agency for International Development or similar agency to identify the portions of the ARC program that may prove useful for developing nations.
- An Appalachian Council of Community Leaders or an Appalachian Community Leaders Forum should be established for the purpose of discussing mutual issues on seeking new ways to fund programs and projects for the betterment of the Appalachian people.

In addition to the above recommendations, the following suggestions were made concerning the future of the Development District concept in Appalachia:

- Appalachian states, working with their development districts, should develop an agreed upon scope of services to be provided by the districts and a maintenance budget that assures continuation of those services throughout existing and future federal aid cutbacks. The budget would be used as a basis to establish a system whereby each state and group of local governments agreed to take over an increasing proportion of the budget.

- Regionalism has proven to be an effective and efficient way for promoting community and economic development. Therefore, when and if new federal and state aid programs evolve, development districts should be considered as a mechanism upon which these programs are planned and implemented at the local level.

- Multi-state projects that may be proposed and/or developed in the future whether financed through state or federal aid should consider using development districts in a review and comment capacity, as well as planning between and among states and districts.

- The Development District Association of Appalachia should continue its mission to bring together a sharing of resources and ideas to improve economic conditions in Appalachia.

A copy of the full document is attached to this statement.

Summary

In closing, I wish to offer the following comments as the Sub-Committee deliberates the fate and future of the Appalachian Program.

- The ARC Program works. It has been an indispensible tool to aid in the economic recovery of Northeastern Pennsylvania. In a very cost-effective manner, it has demonstrated its ability to meet problems, challenges, as well as opportunities in a manner that provides a rate of return on its investments.

- Enterprise development should be the keystone for continuing the Appalachian Regional Development Program.

- Investments have been continually referred to, in this testimony. The ARC has never been a give away program. It has always required a match of public/private sector dollars to leverage its funds. Both the general public as well as the private sector have benefitted from its investments in capital expansion and human resources. ARC funds have made the difference between go or no go projects. Revenues generated by ARC dollars have been returned to the Treasury.

- By this very essence and make-up, the ARC Program has provided a bridge to link public/private sector interests and resources as a tool for economic expansion. It has emphasized decision-making at the grass roots level. It is truly a partnership among the federal/state/local levels of government.

. The ARC Program, I believe, is the least bureaucratic, and most innovative of all federal programs in existence. It is New Federalism at work. Rather than being proposed for elimination, it should be proposed for emulation.

I would urge the Subcommittee on Economic Development to recommend continued funding of this vitally needed program. The job of repairing years of neglect is not complete. Much more work remains and can be accomplished through new re-authorization legislation.

We all realize the necessity of finding ways and means to reduce the federal budget deficit. The ARC Program has taken more than its fair share of budget cuts since 1981. The ARC Program is an investment in the human and entrepreneurial spirit and talent of the citizens of the entire region. To eliminate this Program now, would deprive the citizens of Appalachia of reaching its full potential and fully sharing in the prosperity the nation enjoys, but of which Appalachia can only dream.

The feature film commemorating the activities and accomplishments of the 20th Anniversary of the ARC Program is titled, "More Than A Promise." With your continued support, this promise can be fulfilled.

Thank you very much.

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THE REGIONAL COUNCIL
Stimulating Areawide Economic Development

By Howard J. Grossman

A group of neighboring towns, cities and counties whose residents are tied economically, socially and geographically into one community is a region. In our highly mobile society, economic problems do not restrict themselves to a single city, town or county. Both the public and private sectors have helped establish over 675 regional councils to help deal with problems that cross local boundaries. Regional councils can play an important role in economic development, as illustrated by the activities of one such organization—the Economic Development Council of Northeastern Pennsylvania.

The roles of regional councils vary dramatically across the nation from so-called pure planning agencies and development agencies to research organizations or a combination thereof. Activities can focus on such areas as land planning, human resources planning and development, economic development, management assistance, manpower programs, transportation, computer services, environmental management, housing, public safety and a wide variety of specific projects within each of these categories.

The regional council's flexible role is determined by its constituency which can include the federal government, state government, local governments including counties and municipalities, and the private sector. The type of authorization legislation and funding sources also influence the changing nature of this role. Approximately 675 regional councils have been formed over a more than 25-year span. One council is found in the northeastern corner of Pennsylvania.

Background

Northeastern Pennsylvania, the country's 58th largest metropolitan area, is bounded by New York, New Jersey and the Delaware River on the east, New York on the north, Lehigh Valley on the south and central Pennsylvania on the west. Historically, its economy depended on anthracite production but when that industry sector vanished as a major income producer, the region lost 250,000 people between 1930 and 1970.

After losing their single anthracite coal economy, private sector leaders established a regional council in the early 1960s to find ways to stimulate the depressed economy and promote more cooperation between the cities of Wilkes-Barre, Scranton and Hazleton as well as the counties of Lackawanna and Luzerne.

Thus, the Economic Development Council of Northeastern Pennsylvania (EDCNP) began in 1964 as a research and data center housed in Wilkes College, using funds from the private sector including the Pennsylvania Power and Light Company (PP&L), local financial institutions, the Scranton Area Foundation and the Ford Foundation. PP&L played a crucial role in encouraging the Council's formation and has continued to actively support regional development. Its financial commitment to support EDCNP's goals in the early 1960s was $50,000 a year for five years.

In 1965, the state initiated two major federal development programs—the Appalachian Regional Development Program and the Public Works and Economic Development Act. The search for a logical organization to help coordinate these two programs in northeastern Pennsylvania led to EDCNP, which then expanded it service area to include the seven counties of Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill and Wayne.

The Council's Goals

To establish a base for economic change, EDCNP adopted seven major goals which it has consistently followed in its 20-year history. All of these are directed toward the area's number one problem—finding new jobs.

The goals are to:

1. Diversify the economy, especially improving employment opportunities and raising per capita incomes;
2. Develop human resources, especially improving education and training programs, and increasing social services;
3. Improve the physical environment (with sub-goals of conserving and developing natural resources, improving community facilities and enhancing community appearance);
4. Modernize local governments;
5. Diversify the transportation system;
6. Increase housing quality and supply; and
7. Increase involvement in public affairs (with sub-goals of encouraging the solution of regional problems and providing public information on regional progress).

Membership Campaign

EDCNP administers the largest (in terms of dollars raised and number of members) private sector membership campaign for regional councils in the country. Focusing on local involvement, the Council formulated a Membership Program eight years ago which administers a campaign to raise at least $225,000 per year locally from the public and private sectors against a total budget of about $1 million. Unlike similar organizations throughout the nation, a majority of these local funds are generated from the local private sector.

Howard J. Grossman is executive director of the Economic Development Council of Northeastern Pennsylvania.

The Membership Program is administered through a Membership Planning Committee and a Campaign Committee which collectively set the yearly fund-raising goal. These committees direct over 100 volunteers and Council staff during a two-and-one-half month period to raise the necessary funds for meeting federal and state grant opportunities and for carrying out local programs without using governmental monies.

A membership fee schedule and pledge card are used to categorize organizations according to their resources and ability to be a member. In addition, the seven counties contribute 12 cents per capita. Over the years, the membership has increased to over 450 local public and private sector participants.

Staff and Services

A 28-member staff, most of whom have been with the organization for five or more years, provides EDCNP's services. The staff have expertise in such fields as planning, economic development, business management, accounting, labor relations, credit analysis, psychology, landscape architecture and other areas which prove useful to the Council in accomplishing its goals.

The 300-member board of directors, composed of public and private sector persons, has been chosen to represent as many of the policy leaders as possible. Like many other organizations, the Council prepares a budget and a work program. Proposals for each project are brought before the 65-member Executive Committee for appropriate action.

Underlying EDCNP's entire structure and selection of services is the theory that one organization should take an overall view of the region and be involved in a wide range of activities. This philosophy has spurred the Council over the years to develop programs which ordinarily might not evolve if it were a single- or dual-mission organization.

Enterprise Development

EDCNP has been assisted by the Pennsylvania Bureau of Appalachian Development, Pennsylvania Department of Commerce, and the Appalachian Regional Commission in establishing its Enterprise Development Program. This program provides the foundation for all of the Council's activities. The program's ultimate objective is stimulating small and medium-sized businesses within the region to expand and prosper. To achieve this objective, the Council pursues the following goals:

- develop a capability for evaluating the commercial viability of proposed new products or processes through the pooling of new business ideas and professional review talent;
- develop a capability for meeting financing needs of new ventures through the pooling of public and private capital resources;
- assist new and emerging industries to successfully "incubate" by providing low-cost operating space and through the pooling of facilities;
- assist small businesses and industries in operating more effectively and efficiently through the pooling of business support services; and
- identify and organize specific areas as enterprise development zones where one-stop service capability can be focused.

The Economic Development Council of Northeastern Pennsylvania administers the largest (in terms of dollars raised and number of members) private sector membership campaign for regional councils in the country.

Indicative of the scope of activity in implementing the program's goals, 31 projects under the Council's various revolving loan funds have been approved by its Revolving Loan Fund Committee, consisting of bankers, governmental representatives, business persons and others concerned with the growth and development of the region. These projects are mostly financial packages enabling small and medium-sized businesses to expand their operations or relocate to larger quarters. Each approved project must either create new jobs or preserve existing ones.

Thus far, the loan programs have helped create over 700 new jobs. The 6 percent interest rate under these loan programs helps to lower the overall rate for business firms since they usually utilize a variety of financial packages from such sources as local commercial financial institutions, the Pennsylvania Industrial Development Authority and the Small Business Administration (SBA).

International Programs

SBA has been an important link in the Council's work. The chief SBA official in the region serves as chairman of EDCNP's Export Advisory Council. With funding from the Economic Development Administration (EDA), the Advisory Council has directly assisted in promoting exporting to many local manufacturers with limited experience in the overseas market. Under its Export Promotion Program, EDCNP has attracted large turnouts to over 25 workshops and seminars on such topics as "Doing Business with Canada," "How to Sell Small/Medium Sized Company Products Abroad," "The Role of the Export Trading Company" and "International Advertising and Marketing."

Another related activity is the creation of Foreign Trade Zone #24 in the region. EDCNP made an application to the U.S. Foreign Trade Zone Board to achieve the designation. The application was developed on behalf of the Eastern Distribution Center, Inc., a nonprofit corporation that now administers the foreign trade zone. This followed the Council's involvement in establishing an inland port of entry in the region to serve the northeast Pennsylvania metropolitan area, as well as the designation of the Wilkes-Barre/Scranton Airport as an international airport. In addition, a custom's office located its headquarters at the airport.

Procurement Opportunities

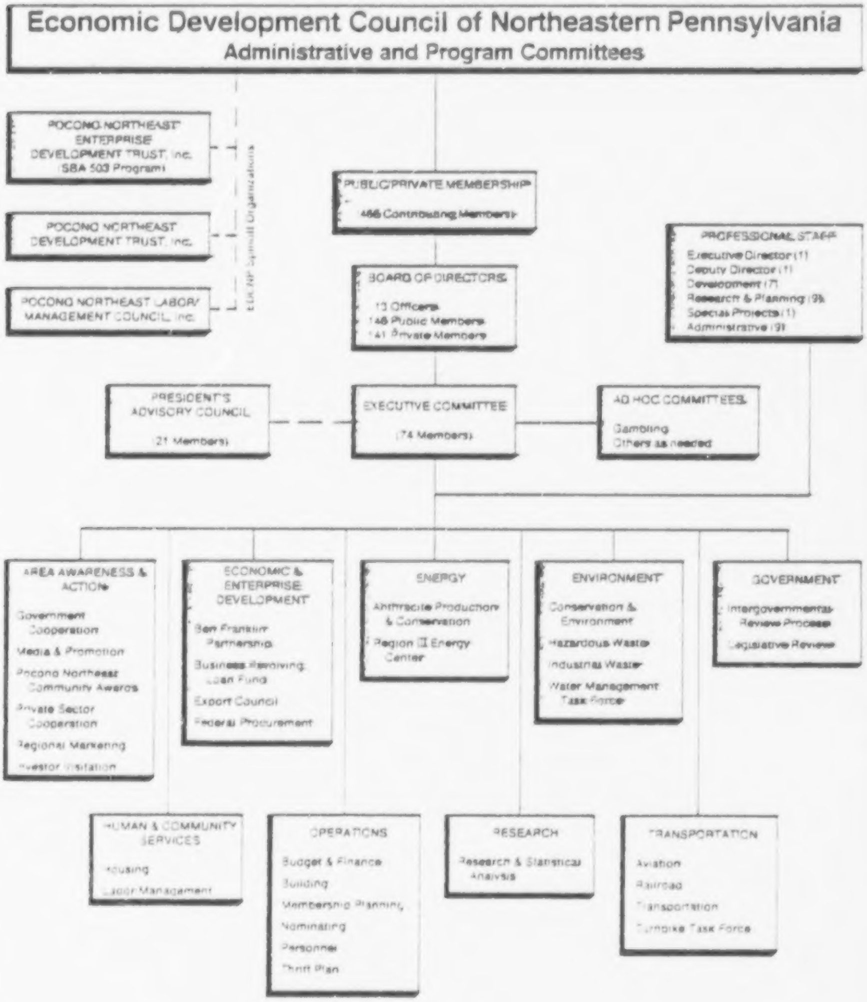
Besides helping local manufacturers promote and expand their export opportunities, the Council also helps local businesses compete for government contracts. To encourage small and medium-sized businesses to take advantage of procurement contract opportunities, the state's Department of Commerce contracted with a consultant to train staff members of each regional council in the complexities of procurement. A trained EDCNP staff person has concentrated on marketing the Council's procurement services to the region's business and industrial community.

Marketing is accomplished by visiting businesses and explaining procurement opportunities and how the Council can assist in achieving a procurement contract. If a contract is completed successfully between the local firm and the federal government with the assistance of EDCNP staff, the Council receives 2 percent of the total contract amount. Thus far, seven firms have successfully been awarded contracts totaling $770,000.

The procurement program is expected to become a major component of the overall Enterprise Development Program because it will be a strong business development incentive and add new jobs to the northeastern region.

Labor-Management Relations

Existing jobs are being aided, as well, through a program directed at labor-management relations. One of the Council's most recent Enterprise Development ventures is a Labor-Management Cooperative Program, utilizing funds for the first year from the Federal Mediation and Conciliation Service, a


Economic Development Council of Northeastern Pennsylvania
Administrative and Program Committees
POCONO NORTHEAST ENTERPRISE DEVELOPMENT TRUST, Inc. (SBA 503 Program)
POCONO NORTHEAST DEVELOPMENT TRUST, Inc.
POCONO NORTHEAST LABOR/MANAGEMENT COUNCIL, Inc.
EDCNP Summit Organizations
PUBLIC/PRIVATE MEMBERSHIP
(466 Contributing Members)
BOARD OF DIRECTORS
13 Officers
148 Public Members
141 Private Members
PROFESSIONAL STAFF
Executive Director (1)
Deputy Director (1)
Development (7)
Research & Planning (9)
Special Projects (1)
Administrative (9)
PRESIDENT'S ADVISORY COUNCIL
(21 Members)
EXECUTIVE COMMITTEE
(74 Members)
AD HOC COMMITTEES
Gambling
Others as needed
AREA AWARENESS & ACTION
Government Cooperation
Media & Promotion
Pocono Northeast Community Awards
Private Sector Cooperation
Regional Marketing
Investor Visitation
ECONOMIC & ENTERPRISE DEVELOPMENT
Ben Franklin Partnership
Business Revolving Loan Fund
Export Council
Federal Procurement
ENERGY
Anthracite Production & Conservation
Region III Energy Center
ENVIRONMENT
Conservation & Environment
Hazardous Waste
Industrial Waste
Water Management Task Force
GOVERNMENT
Intergovernmental Review Process
Legislative Review
HUMAN & COMMUNITY SERVICES
Housing
Labor Management
OPERATIONS
Budget & Finance
Building
Membership Planning
Nominating
Personnel
Thrift Plan
RESEARCH
Research & Statistical Analysis
TRANSPORTATION
Aviation
Railroad
Transportation
Turnpike Task Force

federal agency designed to help alleviate difficult labor-management problems. The cooperative program provides grants to local agencies for establishing areawide labor-management in-plant committees.

In less than one year, the Council has established in-plant labor-management committees at six companies: National Standard (sheet metal), Goyne Pumps (foundry and sheet metal), Superior Generator (motor generator reconstruction), Affiliated Foods (food warehouse and distributor), Anemostat Products (heating, ventilation, sheet metal manufacturer) and Tobyhanna Army Depot (electronics, communications, storage facility).

EDCNP's process for establishing these committees is as follows: 1) receive permission from either party to discuss the intent, need, parameters and possibility of forming an in-plant committee 2) meet separately with both parties to discuss the labor-management climate and to review a committee's activities 3) determine if both parties want to establish such a committee 4) if the response is positive, conduct separate meetings with key members of labor and management.

Enterprise Development Areas

In addition to its direct service for creating better labor-management relations, the Council has been active in establishing local governmentally sponsored enterprise development areas under a new initiative sponsored by the state and administered by the Department of Community Affairs. This program is a spinoff of the proposed federal enterprise zone program.

Successful jurisdictions receiving designations as Enterprise Development Areas are awarded first-year grants of $250,000. In northeastern Pennsylvania, Scranton and Pottsville have received $50,000 planning grants under the program to help develop the necessary apparatus for full designation as Enterprise Development Areas.

EDCNP prepared a detailed report on enterprise zones and Enterprise Development Areas and has recommended areas within the region for designation. In addition, the report has been widely used as a guide by local governments in the region to help them evaluate whether they wish to be nominated as Enterprise Development Areas or enterprise zones.

Ben Franklin Partnership

Through the Council's unique capacity to foster regional cooperation, it has undertaken a major role in encouraging the development of advanced technology using the Ben Franklin Partnership Program.

The Ben Franklin program promotes Pennsylvania's ability to take advantage of new technological changes by establishing various advanced technology centers at research universities throughout the state. The program seeks to stimulate research, development and commercialization of projects at the centers and in adjoining communities through incubators, private investment and small business start-ups. In northeastern Pennsylvania, Lehigh University has established such a center through grants and designations from the Partnership board on which EDCNP's executive director serves. Lehigh's research specialty is computer assisted design—computer assisted manufacturing (CAD-CAM).

In addition to Lehigh, Penn State University is a designated advanced technology center. It serves northeastern Pennsylvania with a specialty in such areas as agribusiness and coal research and development.

Besides coordinating the Ben Franklin program in the region, EDCNP is also involved in the following related activities:

- Establishing a satellite center in the northeastern region based on the advanced technology center at Lehigh, which serves 16 counties;
- Evaluating the possible establishment of a small business investment company;
- Developing venture capital for new economic growth and
- Studying the feasibility of establishing an incubator center.

Energy Conservation

Another facet of the Council's Enterprise Development Program is its designation by the governor's Energy Council as one of 11 Energy Centers throughout the state. In this role, the Council provides free energy conservation surveys to businesses and industries. In addition, EDCNP is encouraging businesses and industries to consider the feasibility of energy development projects which can be funded through loans from the new Pennsylvania Energy Development Authority.

Since energy costs are a critical component of most businesses and industries, this work is extremely important within the context of enterprise development. Energy conservation helps stimulate profits for private sector organizations, thus increasing opportunities for new jobs and the preservation of existing ones.

Related Programs

The definition of Enterprise Development is broadly considered by the Council. Both its railroad and industrial waste programs are inexorably tied to and are a central part of the Enterprise Development project.

Local rail preservation has hit the crisis stage twice in the last decade. In the early 1970s, EDCNP helped form the Railroad Task Force for the Northeast Region to combat threatened abandonment of service by six rail lines undergoing bankruptcy. These lines, all of which converged in the region, included the mighty Penn Central, Lehigh Valley, Reading and Erie Lackawanna.

The Council served as technical consultant for developing a rail preservation plan and worked with state and federal officials to successfully maintain rail service. This service continued through the late 1970s and early '80s until the federal Northeast Rail Services Act gave Conrail the ability to quickly abandon rail lines, resulting in another regional rail crisis.

The Council again picked up the gauntlet and led the regional effort to persuade one or more railroad companies to take over many of the abandoned lines, particularly in the major urban core of the region. As a result of this effort, the Pocono Northeast Railroad Company was launched through private sector financing and has now acquired 80 miles of rail trackage. The company received a $100,000 loan under the Council's Revolving Loan Fund Program to help achieve its objectives and secure new jobs for the region.

The industrial waste problem involves finding sites for the disposal of non-hazardous industrial residual waste. If these sites are not found, thousands of local workers could lose their jobs at factories that are forced to close. Under the Enterprise Development Program, the Council locates a site or sites, develops the administrative mechanism to operate the sites and establishes a public information program to educate the public on this serious economic and environmental problem.

Promoting Cooperation

The essence of regionalism is to resolve problems which cross boundary lines. In a region with a rich history of rivalries and a diversity of local governments unmatched in any other part of the country with the exception of Illinois, the problem of overcoming parochialism is endemic. Conversely, the very reason for EDCNP's establishment was the recognition that all problems could not be resolved individually and there was a need to have some regional oversight.

In the past, numerous obstacles have interfered with a regional approach to problem solving. No system is perfect and every region in the country has issues which cause friction and controversy. For a regional council to be effective, it must develop a strong educational program to overcome the concerns of local organizations that it intends to take over their long-time responsibilities.

When the Council was formed, local organizations were clearly suspicious that it would duplicate some of their services, such as those related to industrial prospecting (accomplished mainly by the local chambers of commerce and industrial development organizations). County planning commissions also feared an overlap of services. The Council has worked over the years to overcome these concerns through an educational process that involves working closely with all local organizations to achieve common understanding of roles and responsibilities.

The Economic Development Council of Northeastern Pennsylvania views itself as a partner and as a broker between the public and private sectors. Its current focus reflects a new way of doing business in northeastern Pennsylvania with heavier emphasis on loans and less emphasis on grants to stimulate the economy of the region.

Today, most of the local chambers of commerce are Council members and mutual interests and issues are discussed at regular meetings. In the case of county planning commissions, common issues are also discussed at periodic meetings. The Council also provides them with technical assistance. In some cases, EDCNP has received grants and sub-contracted with the commissions to carry out some of the work.

One strong ingredient in the Council's approach to overcoming negative attitudes is placing representatives from these various jurisdictions on its Board of Directors and/or Executive Committee. Many Council board members also sit on the boards of local chambers of commerce, industrial development organizations or other groups that are important to the region's future. This overlapping membership strongly encourages a cooperative spirit among the groups in the region.

The Future

The future of regional councils depends upon the support of other levels of government. For example, the federal government has backed away from a series of programs which have been important to regional councils. The former Department of Housing and Urban Development's Comprehensive Planning Program is one such example. More important, however, is the general attitude of federal officials concerning the role of regional councils. Although they represent a voluntary partnership between governments and, in certain cases, between governments and the private sector, many such councils were formed as a result of federal legislation in the early 1960s.

Certain programs at the federal level still have a heavy emphasis toward regional council involvement. These programs include transportation planning and programs for the aging. In still other cases, such as the Job Training Partnership Act, regional councils have been included as one of several administrative agencies used to carry out the program depending upon the wishes of the particular state. It is clear, however, that federal financial assistance is decreasing as a mechanism for support of regional councils, although the Appalachian Regional Commission and EDA continue to be critical resources for multi-county agencies.

Today, with decreasing reliance on federal support, regional councils are seeking increased state, local or private sector aid. General fund appropriations on the part of state governments around the country vary considerably in support of these organizations. Texas provides $3.5 million in its most recent fiscal year appropriations to support 24 regional councils. Many other states have been supporting regional councils at the level of $500,000 or more. But some states have not provided any funds.

Today, with decreasing reliance on federal assistance, regional councils are seeking increased state, local or private sector support. General fund appropriations on the part of state governments around the country vary considerably in support of these organizations.

In the case of Pennsylvania, the state currently provides $100,000 to support seven regional councils with designations of local development districts under the Appalachian Regional Development Program. However, there is a movement to increase the appropriations. A proposal submitted to the Pennsylvania Department of Commerce by the Economic Planning and Development Council of Pennsylvania and the State Association of Regional Councils has resulted in the governor including $400,000 in the state fiscal year 1985 budget.

Where will the resources come from to support regional councils through the 1980s and 1990s? This is a serious problem facing many of these organizations across the country. In areas such as Pennsylvania, which stresses business development, other funding sources are being explored. For example, administrative fees are attached to Revolving Loan Fund Programs administered through the state's regional councils. This type of financial program will help, but not necessarily completely alleviate, funding problems over the next 15 years.

For a regional council to be effective, it must develop a strong educational program to overcome the concerns of local organizations that it intends to take over their long-time responsibilities.

EDCNP, with its strong membership program and private sector support, hopes to increase this support level in coming years to help overcome possible funding shortages. In addition, state support will be extremely important when federal resources diminish as may be the case when the Appalachian Regional Program terminates.

Conclusion

The overall concept of the Council's Enterprise Development Program may be characterized by the word *service*. Direct service to the business and industrial community of northeastern Pennsylvania is the most important function of the EDCNP, provided in cooperation with the local chambers of commerce, industrial development organizations, governmental organizations, state and federal governments, and all the local public and private sector organizations and individuals who constitute the Council's structure.

EDCNP, which originally started as a research center, has evolved into a major planning and development force within the region. The Council views itself as a partner and as a broker between the public and private sectors. Its current focus reflects a new way of doing business in northeastern Pennsylvania with heavier emphasis on loans and less emphasis on grants to stimulate the economy of the region. The Enterprise Development Program is the Council's cornerstone in the 1980s as it seeks to turn the pages of the region toward the 21st century.

TOWARD THE YEAR 2000

FORGING THE FUTURE OF APPALACHIA

A Report of the Development District Association
of Appalachia

Introduction

In the Fall of 1984, the Development District Association of Appalachia, a consortium of the 69 development districts within the 13-state Appalachian Region, prepared a questionnaire and sent it to each development district. The purpose of the questionnaire was to examine not only the past accomplishments of the Appalachian Regional Commission and the Appalachian Regional Development Program, but also, to examine the future. The facts help to determine courses of action which may be required to maintain and expand some of the successes which the twenty-year Appalachian Regional Program has achieved.

The results of this questionnaire seemed to confirm what the governors of the 13-state Appalachian Region put forth in 1982 as part of the proposal for a finish-up program for the Commission. The development districts concluded that while much has been accomplished over the last twenty years, and while a mechanism for local involvement to continue a planning and development process has been established, much yet remains to be done.

This report, based on the perceptions of individuals residing in the Region and working to develop Appalachia for many years, outlines a series of conclusions and recommendations based on the results of the aforementioned questionnaire. The recommendations concern the remaining needs for development of Appalachia and are addressed to Congress, the President, the governors of the 13 Appalachian states, local governments and the private sector. It is unlikely that all of the recommendations will be achieved in a single year. The development districts recognize the changing role of government, as well as the private sector, in achieving the goal of stablizing the quality of life, and improving and expanding upon past successes.

Responses from the questionnaire were received from districts in all thirteen states. The results, therefore, seem representative of the entire Appalachian Region. The conclusions and recommendations which result from the survey are those developed by a committee of the Development District Association of Appalachia who reviewed the survey results and prepared these conclusions and recommendations.

General Conclusions of the Questionnaire Survey

The following represent major conclusions which were reached as a result of an analysis of the survey.

Accomplishments of the Appalachian Program

1. In its twenty-year history, the largest accomplishments of the Appalachian Regional Commission may be summarized in three categories:

   (a) Infrastructure financing including water and sewer, industrial parks, vocational-technical schools, primary health care centers, and others.

   (b) Establishment of the Appalachian Development Highway System.

   (c) Development of capacity building on the part of local public and private sector organizations such as local development districts to have the ability to provide technical assistance, planning and development resources, and intergovernmental cooperation.

2. One of the outstanding accomplishments mentioned by a vast majority of development districts is the capacity and local leadership building which enabled local officials in the public and private sectors to make decisions to benefit the development of their service area. The Appalachian Development Highway System, together with the institutionalization of intergovernmental cooperation and public/private sector partnerships represent the two key lasting ingredients in the ability of Appalachia to compete in the 1980's and 1990's.

3. The Appalachian Regional Development Program has enabled leveraging of other federal dollars and local and state dollars for key projects designed to facilitate development opportunities.

4. The Appalachian Regional Development Program has established a valuable demonstration for rural development within the 13-state Appalachian Region which serves as an example for improving other rural areas of this nation as well as for many nations abroad.

Future Needs for Appalachian Development

1. By far, the largest remaining need for the development of Appalachia is the construction of water and sewer facilities. This is true for older industrial areas and newer high growth areas of Appalachia, north and south, rural and urban.

2. Other needs currently unmet and requiring completion include the following:

   (a) Appalachian Development Highway System.

   (b) Venture capital and working capital for new and expanding businesses (in the form of revolving loan funds and seed capital funds).

   (c) Additional infrastructure projects including, but not limited to, access roads, solid waste facilities, and others.

   (d) Educational facilities and training and retraining programs.

   (e) Primary health care systems for Appalachia.

   (f) Development of additional housing units/or rehabilitation of existing housing units to serve the current and future populations of Appalachia.

   (g) Continuing assistance for local development districts.

3. New and innovative techniques need to be developed and promoted to meet these unmet needs, particularly for water and sewer systems. This requires creative financing abilities, alternative designs and methods and a reexamination of the regulatory framework for infrastructure development which go beyond traditional federal funding of projects.

4. Local development districts should continue as the administrative tool to carry out effective economic development programs in the 13-state Appalachian Region. This requires, not only some stream of federal funding support, but an increasing role for state and local governments as well as the private sector.

Recommendations

Based on the results of the questionnaire survey, the following represent suggested actions which may prove to be helpful in setting a direction for the future of Appalachian development.

1. Federal funding should be made available to complete the full ARC finish-up proposal including the Appalachian Development Highway System.

2. The federal government should not abandon support of areas which require outside assistance in order to make them competitive with the rest of the nation, but instead, should seek new ways to continue its partnership with states and local governments and the private sector to achieve a permanent stabilized economy for all distressed areas including Appalachia.

3. Congress should consider taking all existing water and sewer grant programs and target these monies to distressed communities across the country so that the limited federal dollars available for water and sewer needs can be met in a more cost effective manner.

4. The districts recognize the tremendous demands now placed upon state budgets, nevertheless the enormous need for development infrastructure and the decreased amount of federal aid available requires that state governments consider increasing their participation with their local governments in financing local development needs.

5. As one alternative to increased federal aid, additional efforts should be made to demonstrate and publicize innovative methods to meet the existing and future needs for development infrastructure in Appalachia. This includes alternative water and waste treatment systems, privitization of a variety of public services and facilities, and alternative financing mechanisms.

6. Appalachian states working with ARC and other funding sources should consider establishing enterprise development oriented capital loan funds and small business development programs to meet the need for new and small business creation in the Region.

7. The Advisory Commission on Intergovernmental Relations should update their previous study on multi-state regionalism to study the ARC process and evaluate and assess its performance as a basis for recommending a similar process to be used in other federal and state programs.

8. A similar study should be performed by the Agency for International Development or similar agency to identify the portions of the ARC program that may prove useful for developing nations.

9. An Appalachian Council of Community Leaders or an Appalachian Community Leaders Forum should be established for the purpose of discussing mutual issues on seeking new ways to fund programs and projects for the betterment of the Appalachian people.

In addition the following recommendations are made concerning the future of the development district concept in Appalachia.

1. Appalachian states, working with their development districts, should develop an agreed upon scope of services to be provided by the districts and a maintenance budget that assures continuation of those services throughout existing and future federal aid cutbacks. The budget would be used as a basis to establish a system whereby each state and group of local governments agree to take over an increasing proportion of the budget.

2. Regionalism has proven to be an effective and efficient way for promoting community and economic development. Therefore, when and if new federal and state aid programs evolve, development districts should be considered as a mechanism upon which these programs are planned and implemented at the local level.

3. Multi-state projects that may be proposed and/or developed in the future whether financed through state or federal aid should consider using development districts in a review and comment capacity, as well as planning between and among states and districts.

4. The Development District Association of Appalachia should continue its mission to bring together a sharing of resources and ideas to improve economic conditions in Appalachia.

Policy Direction

The intended use of this paper is to set forth a policy direction to continue the twenty-year successful history of the Appalachian Regional Development Program. Each recommendation should be researched, evaluated, courses of action determined, and carried out by appropriate use of talent available from ARC, other federal agencies, state agencies, and local and public and private sector talent. The Development District Association of Appalachia pledges its support in assisting, in any way possible, to carry out the recommendations and actions determined or implied by the conclusions and recommendations in this document.

It is our considered judgement that the most effective way to reach the goals originally set forth by the Appalachian Regional Development Program is to utilize a combination of public and private sector resources to create a stable economic development program which will chart and map those courses of action necessary for a prosperous future in the 13-state Appalachian Region.

TESTIMONY TO ECONOMIC DEVELOPMENT SUBCOMMITTEE OF HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE

U.S. House of Representatives

For Hearing Concerning Continuation of the
Appalachian Regional Commission

March 26, 1985

By

Robert E. Shepherd
Executive Director
Land-of-Sky Regional Council
Asheville, North Carolina

On March 5 and 6 in Asheville, North Carolina, approximately 120 government, business and civic leaders gathered to discuss the future of the Appalachian portion of North Carolina. We met to discuss local people's ideas on how future Appalachian Regional Commission funding should be used and urgent steps which must be taken if in the future we have to continue our region's development without ARC.

We all knew that the Appalachian Regional Commission was not meant to last forever, we knew that it was designed to help lagging areas enter the economic and social mainstream of our Country and that much progress has been made over the past 20 years. So we agreed that the Appalachian Regional Commission's programs should end -- in another 20 years!

Seriously, one thing the local people told us -- loud and clear -- is that time is needed

- time to assure that the development process which has begun is not lost,

- time to assure that the six Local Development Districts (LDD's) in our State can work to develop a more secure funding base and to insure continued regional planning for orderly development,

- time to work with the state to develop alternative infrastructure financing programs, particularly for water and sewer,

- time for joint evaluation by the state and local governments of the prospects for completion of the unfinished segments of the Appalachian Highway System which are so vital to continued development of our mountainous region.

To get to the bottom line quickly -- we need to be assured that the governors "finish-up" program presented to Congress in December, 1981 will be completed. This would allow us time to pursue -- through our governor and our legislative process -- the development of state programs which might at least partially compensate for the loss of the ARC investment program.

I have a deep appreciation for what the Appalachian Regional Development program has meant; being a born

Appalachian and North Carolinian, growing up on a small dairy farm in Ashe County (population about 20,000), having worked in the Local Development District in northeastern Pennsylvania for four years and being well into my eleventh years as executive director of the Land-of-Sky Regional Council; having served as an officer in the Development District Association for several years, including a term as president in 1982-83.

I have had the opportunity to become acquainted with problems and needs of 13 states. I have seen how that through the Commission's partnership approach -- with grassroots involvement through the Local Development Districts, strong state participation and active federal involvement at the table -- the process has worked to address the quite varied problems of the three subregions:

- Northern Appalachia with its older industrial base and relatively slow population growth,
- central Appalachia which is lacking in many basic services and amenities, and
- southern Appalachia which has considerable potential for growth, but is severely lacking in the infrastructure necessary to support that growth.

North Carolina and the Land-of-Sky Region: The 29 western counties of North Carolina have received approximately

$139 million of ARC Area Development funds and $146.5 million of Highway funds. In my own four-county region (Buncombe, Henderson, Madison and Transylvania Counties) I often point with pride to the projects in which ARC has made investments. They have been the "bricks and mortar" of our region's economic progress since 1965:

- Major investments in Asheville-Buncombe and Blue Ridge Technical Colleges (In fact, the President of Blue Ridge Technical College said in the ARC film, "More than a Promise: Appalachia 20 Years Later" that it is doubtful that his institution would exist without the ARC's initial investment.)
- The highly successfully Western North Carolina Farmers' Market which markets well over $20 million of products each year, along with a related facility the Western North Carolina Agricultural Center.
- Improvements at the Asheville Regional Airport.
- Four area hospitals and four rural health clinics.
- Water and sewer systems in all four counties.
- **The University of North Carolina at Asheville and another local college.**

- Cane Creek Industrial Park and the surrounding industrial area which contains 23 industrial plants employing about 3,300 persons.

- The Mountain Area Health Education Center which has been so successful in helping to train and retain doctors to serve in our rural areas.

- Four libraries.

- Two sheltered workshops.

- The Mountain Area Hospice.

Altogether for the four Land-of-Sky counties -- there have been eleven water improvement grants, eight sewer improvement grants, fourteen health program grants, 18 grants benefitting education and 20 grants or loans to stimulate housing construction -- just to mention a few.

Local Development District Support Crucial: I wonder where we would be without the above additions to the economic and social infrastructure of our region. I also wonder where we would be were it not for the 20 years of flexible administrative funding to the Local Development District I serve, as well as the other five in North Carolina. The LDD funds use has been subject to the priority setting of local elected officials, as to the programs and projects they wish our district staff to work on in any given year.

Unlike the funds we receive for aging, emergency medical services, Job Training Partnership Act planning, EPA 205(j) water quality planning, occasional grants for rural transportation planning and a variety of other categorical programs we administer for the benefit of our region -- the ARC funds have been there to met the economic development concerns of our region and its local governments. We have had the flexibility to assist local chambers of commerce and industrial commissions with plans and programs for continued development. We have been able to assist local governments in obtaining many grants for which they were eligible, and to help them modernize their local government practices for greater efficiency and dollar savings. Because work programs have been responsive to regional needs, there has been a big payoff in progress.

Appalachian North Carolina's Conference on the Future: In fact, when our 20th Anniversary Conference was held three weeks ago, representatives of all six Local Development Districts considered the development of contingency plans to continue the six Local Development Districts to be of the highest priority. The Districts have been working to diversify our funding base through charging user fees when appropriate, if our local governments can afford to pay for the services rendered. But local tax bases are limited. At the same time, intergovernmental funds are threatened at federal and state levels. Our state does not provide direct funding for administration of the LDD's economic development programs -- unlike most Appalachian states. This is something that is being addressed but will take time.

What else did our local citizens tell us at our recent conference? They said that key needs of our area were water and sewer systems; flexible facilities and programs for vocational education to meet the needs of a diversifying economy; completion of the Appalachian Highway System; small business development programs which work; increased attention to marketing our region's products and to making better use of limited resources in health, education and recreational and cultural opportunities; dropout prevention programs; environmental and natural resource protection and access to the intergovernmental system by even our smallest towns and civic groups.

In short, they told us that the job of the Appalachian Regional Commission is not yet done -- although we admit much progress has been made.

North Carolina's ARC Program Has Been a Model: We consider that North Carolina has been somewhat of a model for project selection and development. In the mid-1970's, following a period of dialogue with state office, we came up with a process whereby all projects recommended for funding within the Appalachian region -- whether by a local, state, private, non-profit or other organization -- is reviewed by the LDD from which it was proposed. Also, any project affecting more than one district is discussed in a session in Raleigh involving representatives of all LDD's. This has even resulted in some programs proposed by state agencies being deleted because they were not a priority in the minds of the Appalachian region's representatives.

We also assure careful attention to local project selection by having what we call a "Mountain Marathon", a week during which ARC, state, and other affected federal agency representatives meet with local applicants in the districts. We make sure that project proposals are well understood, determine whether they are eligible for funding, what additional steps are necessary for final consideration, and what the process of selection will be. This model was written up for "Appalachia" magazine and I am told by our state's program coordinator that several other states have adopted this system or a similar one. I believe that our process has helped to insure the kind of projects that I pointed to with pride earlier. There has been little waste in North Carolina's Appalachian Regional Commission programs. Rather than a _spending_ program, it has been truly an _investment_ program.

Evaluation of Impact: This was well documented in North Carolina in early 1981, the first time the program was threatened with extinction. Again, representatives of North Carolina's Local Development Districts rallied. We believed that if people really understood what this program had done in Appalachia and in North Carolina, responsible officials at all levels would continue to support it. So we prepared a report ("The Economic Impact of the Appalachian Regional Commission in Western North Carolina: A Program that Works") based largely on an evaluation of a variety of projects which ARC had funded in each of the districts.

Some of the highlights of that report were:

- The $1.7 million ARC investment in water system improvements and access road south of Asheville where the Cane Creek Industrial Park is located had, by 1981, generated $280 million of increased property tax base, attracting 23 new industries, creating more than 3,300 jobs, and an almost $47 million payroll (in 1981 dollars). Roughly, for each $500 in ARC investment, a new permanent job was added. The cost to the American taxpayer was soon paid back through payroll taxes.

- Supplemental funding for a water line in an LDD to our east (in Morganton), allowed the creation of 650 jobs at an ARC cost of just $400 per job. For this project it was estimated -- in 1981 -- that the federal governments initial investment of ARC funds plus a surplus of $740,000 had been paid to the U.S. Treasury.

- The construction of an allied health building at Asheville-Buncombe Technical College had already produced 866 graduates (registered nurses, dental assistants, dental hygienists, medical laboratory assistants, laboratory technologists, licensed practical nurses, and radiological technicians), 90% of whom were placed in Appalachian counties.

- An ARC investment of $600,000 in Forsyth Technical Institute, also in a district east of ours, resulted in nearly 1,500 graduates in business administration - related occupations, and was set to retrain 400 current industrial workers.

In a word -- our survey demonstrated that the Appalachian Regional Development Program is a program that works.

Summary: To those who would say that the Commission approach is not one that will deal with the problems of the 80's I -- would say that the ARC local-state-federal cooperative mechanism is a problem solving mechanism, above all, and that it has demonstrated that it can tackle a wide variety of economic development, environmental, educational, health, housing and other problems and opportunities.

Somewhere in the federal system there needs to be a continuing demonstration of this workable ARC concept, which when economic and budgetary recovery is complete, can be applied to other problems and other regions. The ARC concept, created by the Congress, is internationally recognized as an overwhelming success.

To those who believe that national economic recovery will solve the problems of Appalachia -- I would ask that they consider the many periods of recovery in our nation's history and ask why Appalachia is not prosperous now. I would also ask you to visit counties of Western North Carolina who still have double-digit unemployment.

To those who think that there is a question of geographic equity or fairness -- I would ask how fairly the country has dealt with the Appalachian people for generations. I would also point out that even with the ARC help, Appalachia is not on par with the Country as a whole in its receipt of federal help. Neither does it benefit very directly in an economic sense from the priority given to defense expenditures due to its lack of defense-related industries.

To those who would argue that congress consideration of plans to carry ARC to the year 1990 goes beyond the Governor's original request for a finish-up program through fiscal year 1987, I say that the Commission's programs have not had an opportunity to work fully over the past several years due to funding uncertainty and the resulting inability of Local Development Districts and states to plan effectively.

I have seen Federal Co-chairman Pizzano's testimony of March 20, 1985. I believe that there are some suggestions in her testimony which might be considered as workable -- along with a continued Appalachian Regional Development Program. These include greater reliance on revolving loan funds, targeting of industrial revenue bonds to distressed rural communities, preferential tax arrangements for those areas (or enterprise zones, if you will) and programs to stimulate a greater flow of investment capital into Appalachia.

Above all, the ARC should be continued because of its proven effectiveness and a continuing need. To stop where we are would leave an unfinished masterpiece. Congressman Roy A. Taylor, who represented my district for over 16 years and was a sponsor of the Appalachian Regional Development Act recently told me that he believed the ARC program had done more for his district than any other program passed during his tenure in Congress. He said the major reason for this is that it has been the best managed since it relies on state and local officials with knowledge of local needs and priorities.

My own local officials in surveys during 1981 and 1985 placed ARC and General Revenue Sharing as top federal assistance programs which have earned continued support.

If it works, let's don't destroy it. Thank you.

STATEMENT TO THE HOUSE ECONOMIC DEVELOPMENT SUBCOMMITTEE
BY GATLIFF CRAIG, EXECUTIVE DIRECTOR OF THE
CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT
10:00 A.M., MARCH 26, 1985

Mr. Chairman..........Honorable members of the Committee..........

I'd like to preface the remarks that I have prepared for today ----- by saying -----to you--- how I feel about this opportunity that you are affording my colleagues and me.

This is a 'first time' experience for me and I admit--to you-- I feel honored for being allowed to make this appearance.

As I thought on this subject this morning ----- my reflections took me back to my youth--------to the backwoods elementary school where, as a gangling, barefooted seventh grader, we studied some about government and I learned a little about the United States Congress.----------

--I guess that, most times, we think of others meeting with you and discussing our area's needs. Certainly, in that rural school, where I was the only 7th grader, I never dreamed that I would have an opportunity such as this.

Second, I want to thank you, your colleagues, and those that were before you for your far-sightness, ---- your compassion --- and your wisdom in providing special help for this special area.

I know, as you know, that you have made a wise choice in supplying investment monies for his Appalachian area through the Appalachian Regional Commission. --- The dividends on this investment will be greater as time goes by --- especially, if we are allowed to more suitably complete the job that is underway.

Sometimes, we hear questions as to whether this investment is morally right --- I assure you that this investment that you are making is not only morally right, --- but economically sound! --- I know that you join me -- and everyone else -- in appreciation for the forward movement that has begun in Appalachia.

---In the Cumberland Valley (Kentucky), we have this forward movement going, ----not unlike most of Appalachia, we recognized early in the effort that we must develop a more diversified economy.

Our area (Cumberland Valley) may be classified as about half in the mountains and half in the foothills. The history of our economy has been an income from coal in the mountains and small family farms in the balance. You can imagine what happened to us in the 50's and early 60's when the coal market got in trouble and the small farm lost its ability to sustain a family. Resulting from this, nearly fifty percent of our people had to leave the area in search of a living. We were subjected to societial pressures to which we were not prepared.

--- With the help of the ARC, we are well on our way toward alleviating this problem. As evidence to this, the U. S. Census figures show that between the years - 1970 and 1980 - our people are migrating back to this land where they can be most happy and most productive.

The ARC has furnished the seed, we have planted and the increase is our witness.---

The seed is the money that you have allocated --- once planted, matched and supplemented by various other revenues, we have the beginnings of: roads that make it possible to come back -- as well as to go --

We are impounding and treating water and via the ARC stimulus, we are getting help from other agencies, coupled with local efforts to install distribution lines through much of our rural area.

This encourages us to construct habitable housing and allows us to develop industrial and commercial sites to accommodate small industry and business.

—-- From this comes jobs from which comes pride and satisfaction such as only as self-supporting person can appreciate.

From this same seed springs the potential for answers to our many deficiencies in the field of health.

Not only do we have the Appalachian Hospitals, but we are developing many rural health clinics for that populace in the more remote areas.---

--- We are training nurses and conducting incentive programs to encourage physicians to live and practice in the Cumberland Valley area.

--- Through the employment of the local development district concept, we have local officials and the citizenries of our small towns and counties working together. If we were forced to choose the most important benefit derived from the ARC -- this might be the one. This has begun and it will last --- the wall of partition -- is removed.

This may sound as though we are finished and that all needs are satisfied. -- I wish it were so --- with our progress, we are pleased --- but we cannot -- yet be satisfied. The effort needs some more time, more energy, and -- the ability to continue to plant and nurture the seed.

Again, I say, we in Kentucky -- we in Appalachia, appreciate your understanding, your wisdom, and your compassion as you have joined hands with us in these efforts.

As I reflect, I remember a quotation from the Apostle Paul; as he reflected upon his life. He said, "I have fought a good fight, I have finished my course, I have kept the faith." ------

I assure you that we are fighting a good fight, we are keeping the faith, --- but our course is not yet finished.

Thank you.

1970 AND 1980 CENSUS COMPARISON

COUNTY	1970 POP.	1980 POP.	ABSOLUTE CHANGE	% CHANGE
Bell County	31,121	34,330	3,209	+10.31%
Clay County	18,481	22,752	4,271	+23.11%
Harlan County	37,370	41,889	4,519	+12.09%
Jackson County	10,005	11,996	1,991	+19.90%
Knox County	23,689	30,269	6,580	+27.78%
Laurel County	27,386	38,982	11,596	+42.34%
Rockcastle County	12,305	13,973	1,668	+13.56%
Whitley County	24,145	33,396	9,251	+38.31%
CVADD	184,502	227,587	+43,085	+21.73%

TESTIMONY OF DR. SAM DAYTON, JR., EXECUTIVE DIRECTOR, GEORGIA MOUNTAINS PLANNING AND DEVELOPMENT COMMISSION, GAINESVILLE, GA; HOWARD J. GROSSMAN, EXECUTIVE DIRECTOR, ECONOMIC DEVELOPMENT COUNCIL OF NORTHEASTERN PENNSYLVANIA; BOB SHEPERD, EXECUTIVE DIRECTOR, LAND O'SKY REGIONAL PLANNING AND DEVELOPMENT COUNCIL, ASHEVILLE, NC; AND GATLIFF CRAIG, EXECUTIVE DIRECTOR, CUMBERLAND VALLEY AREA DEVELOPMENT DISTRICT, LONDON, KY

Dr. DAYTON. First, let me express my appreciation for being here. I am Sam Dayton, executive director of the Georgia Mountains Planning and Development Commission. I head a commission which serves 13 counties located just north of the Atlanta Metropolitan area and extending northward to the North Carolina State line.

Previously, my district had the image of one whose economy was based on moonshine and it reached some fame as being the site of the filming of the movie, Deliverance. However, those were all eclipsed some 3 years ago with the fame that was garnered by the introduction of the Little Person, or the Cabbage Patch Kid. Those come from my region and I provided the technical assistance which brought about the first location for the manufacture of the Little Persons, which eventually became the Cabbage Patch Kids.

My district is quite rural. It is represented by a high percentage of retirees and I might say those percentages are increasing. The area is a beautiful area. As you know, vacation-resort areas are typified by having high rates of underemployment.

Addressing one of the concerns of one of your committee members, I might say that growth places and distressed counties in many locations are quite close together. That is a very common condition in rural America. Investment actions resulting in new jobs in growth areas can have an effect on distressed counties.

I was born in Georgia Appalachia during the years of the Great Depression. Years later, I found that I had no difficulty in understanding what I studied about my native region because I had experienced virtually every characteristic of the Appalachian syndrome as I grew up. I didn't need to be taught that Appalachians were forced to migrate to such gateway cities as Cincinnati to find work. An aunt, an uncle and five first cousins from Towns County, GA had already shown me that because they had to do it. That movement has been characterized as the greatest migration in history and it probably wasn't good for either the migrants or the destination cities.

I didn't need to be taught about the poor health care or inadequate roads of my native area because a summer trip to visit relatives when I was 6 resulted in a broken leg for my older sister and a 2-hour trip to the nearest medical facility over a road that was partially paved and often unpaved. The road, incidentally, is not remote. It is one of the major thoroughfares of my region.

I didn't need to be taught that the children of my region had to leave to complete their education or that they typically spent their professional careers elsewhere once they left. That was my own experience. However, I have since returned.

John Fischer, associate editor of Harper's magazine wrote in part about my region: "During the years of the Great Depression, I got to know Georgia pretty well, because I then worked for a Government agency that was trying to do something for sharecroppers, farm tenants, and other poor people in the South. I found it the most discouraged and discouraging State I had ever seen." He went on to say that things were changing in my region, "For a long while, I didn't pay much attention to such tidings, because I couldn't believe that anything fundamental would change in Georgia during my lifetime. Recently, however, I began to get signals that the State not only was catching up with the rest of the Nation, but in some ways was actually pushing into the lead. It had, for example, come up with some political and social ideas of marked originality. Moreover, they had worked so well that they were rapidly spreading into other States. Since fresh ideas of this type have been in short supply for quite a while, I decided to go this winter to see for myself. Everything I had heard turned out to be true, and then some."

What Fisher was talking about in that coverage was a region which had not solved its massive problems, but a region that was doing something about them. The political and social innovation about which he spoke referred to the local development district, a Georgia invention and gift to the Nation. Our General Assembly had determined in 1960 that Georgia's cities and counties were so small and budgetarily poor that the only way in which they could have their own professional staff was to band together into districts and pool their resources.

Of course, we know that the local development district later became the heart of the delivery system for the Appalachian Regional Development Program.

There is a vast difference between what we term community development and industrial development. Community development permits us to offer assistance on a broad spectrum of all those things which bring about the overall betterment of an area and improvement of living conditions.

No other Federal program has had the impact on my region that has been accomplished by the Appalachian Regional Commission. We have been playing "catch up" in social, educational and economic terms since 1965. For an area that had several counties with family incomes of less than 50 percent of the national average in 1960, we now have all of our counties between 60 and 80 percent. Not as bad as it used to be, but still not good enough. We must continue to diversify our economy and attract businesses than can offer better wages to our people. To do that, we will need to increase the capacities of our water and sewer systems and to locate more suitable industrial sites while at the same time keeping a watchful eye on our fragile mountain environment.

Our roads are much better now. At least, the principal ones are paved. My area was the classic Appalachian situation relative to transportation. Because of topography, early roads and railroads simply bypassed the area. Seven of my thirteen counties have no four-lane sections of roads. The Developmental Highway System in the State of Georgia is still incomplete.

As with a cancer patient who is released before being completely cured, I fear that my region of Southern Appalachia could easily lapse back into the massive problems which beset it before our program of Federal and State intervention aimed at mainstreaming the area and its people began.

The Southern Regional Council recently reported that poverty in the South increased from 1979 to 1984 with a dramatic and unprecedented jump. The number of poor in our region is now again what it was 25 years ago and the rate of poverty is what it was in the early 1970's. We have a long way to go in curing the basic problems that lead to poverty. Only one of four adults in my region, age 25 and over, has a high school education. Education is still a principal priority in my region and the State of Georgia.

Textile mills migrated from New England to the foothills and the mountains of my region. Textile employment declined by over 1,000 jobs between 1982 and 1983 alone. Foreign competition is devastating this section of our economy. We must continue to diversify. The ARC region as a whole lost 3 million jobs in the period 1980 to 1983. The first wave of new jobs has converted conditions of unemployment to that of underemployment. Many people simply don't earn enough to live due to low wages or less than full-time work. That's especially true in an area such as mine that depends on a resort economy to a great extent.

Our area will remain distressed for some time, relative to the Nation as a whole. Because of our own bootstraps efforts and the invaluable assistance of the ARC, life is dramatically different in my native area today. We do have better health care, better roads, better educational facilities, more jobs and more people. As we progressed out of our regional depression, the Nation progressed even faster, however. We still find ourselves playing catchup. To express my own position on the Appalachian Regional Development Program, I like to paraphrase my Congressman, the Honorable Ed Jenkins, as he said, "When my area catches up with the rest of the Nation, I will stop supporting the Appalachian Regional Commission." Thank you for your time.

Mr. **Nowak**. Thank you very much, Dr. Dayton.

Let us now turn to Mr. Howard J. Grossman, representing the Northeastern Pennsylvania Economic Development Area.

Mr. **Grossman**. Thank you for the opportunity of presenting our information with respect to the ARC. My name is Howard J. Grossman. I am the executive director of the Economic Development Council of Northeastern Pennsylvania. I also am the immediate past president of the Development District Association of Appalachia and the current chairman of the Economic Planning and Development Council of Pennsylvania, the Commonwealth's State Association of Regional Councils.

The Economic Development Council that I represent is a private nonprofit research and planning organization composed of the 322 member board of directors, representing a wide spectrum of interest groups in the public and private sectors. That council serves seven different counties.

Northeastern Pennsylvania does represent the 58th largest metropolitan area in the United States. It is both urban and rural at the same time. Historically, its economy was based on the production of anthracite coal but when that industry sector vanished as a major income producer, the region lost 250,000 people in 40 years between 1930 and 1970. Unemployment was rampant. Out migration of the region was the norm rather than the exception. Our landscape was scarred by the aftermath of anthracite mining. The basic infrastructure to attract and support business was woefully inadequate and investment in human capital was sorely lacking.

Today the region can take pride in its remarkable recovery from those dark days. The region does have a relatively diversified economic base which is not dependent upon a single industry such as anthracite.

The region's population now includes over 907,000 persons having experienced a 33,000 population increase between 1970 and 1980, which was our first increase in over 50 years.

Problems still exist, however. Unemployment is still far too high. Our average is about 9.8 percent in our seven counties. Per capita average is still lagging behind national and State figures and the need still exists to create new employment opportunities through joint public/private sector initiatives.

Throughout the past 20 years, the ARC Program has performed a key role in fostering an improved economic climate in northeastern Pennsylvania. It is unnerving to imagine what the present condition of our region would be without the investments of the ARC Program. Through its emphasis on decision making at the grass roots level by both public and private sectors and with its leveraging effect, it has served this region's needs very well in a cost-effective manner.

The ARC Program has proven its value many times over in our region through its 20 year history; most recently by Pennsylvania's pioneering Enterprise Development Program. When the page was turned to 1980, we added a new dimension through the ARC Program. This was the Enterprise Development Pathway. Pennsylvania, through its department of commerce and with financial and technical support from ARC, began focusing considerable attention on small business development and to encourage each of the Appalachian counties in the State to undertake a full-fledged enterprise development program. This included revolving loan funds, loan packaging, small business procurement opportunities, and much more.

As a result of this focus, each of the seven Appalachian development districts in Pennsylvania have been equipped with technical abilities, as well as financial resources to carry out a variety of regional programs of importance to small business.

When the economic recession of the 1980's hit, it made it more apparent that new techniques were required to achieve economic change. Not only was enterprise development unfolding, but the need to reinvigorate basic industry, such as steel, coal and the needle trades, as well as create assemblies of new technological beliefs, became important instruments for economic growth.

Our council was an important focus for institutional change in view of its past history of public/private sector participation and cooperation. It's already heavy emphasis on private sector functions and economic growth was redoubled as it sought to utilize every tool possible to achieve the expansion of small and medium-sized businesses, as well as preserve jobs wherever appropriate.

Enterprise development became an important symbol of economic growth and continues today as our centerpiece for change. This could not have occurred without the foresight of the Appalachian program and its innovative approach to economic development.

Our council, in concert with the ARC, has initiated the following programs toward enterprise development, First, development financing. To the current date, 32 businesses have received low interest loans from our council via its revolving loan program, financed with ARC and other funds. These loans have created approximately 1,000 net new jobs since 1982. In fiscal year 1984 alone, $893,000 of public and private sector revolving loan fund dollars have leveraged $15 million of public/private sector contributions.

Second, export outreach. In 1984 alone, the council provided direct assistance to eight manufacturers which resulted in nearly $900,000 of increased sales via the export outreach program.

Third, labor management relations. We have had in place a regional labor management council for some time. In addition, there are a number of local area wide labor management committees. Through this concentrated and coordinated effort, seven inplant labor management committees have been established since 1983. In one case, the president of a local company stated that 250 jobs were saved due to the existence of the inplant labor management committee. In addition, our council continues to work to eradicate the false perception associated with the region's work force present since the heyday of anthracite coal when violent strikes and confrontations between management and labor were routine.

Fourth, industrial waste. The industrial waste problem in northeastern Pennsylvania revolves around the possible loss of jobs if sites for the disposal of nonhazardous industrial residual waste are not found in the near future. Literally thousands of jobs are at stake. Our council's Enterprise Development Program includes an element to locate a site or sites and development of an administrative mechanism to operate the sites and, since the public is confused about hazardous and nonhazardous waste, a public information and education program.

Fifth, incubator facilities. We've developed a series of incubator facilities necessary to house small growth companies. The council has been active in promulgating this economic development tool throughout the region. We have a strategy for establishing incubator buildings within urban and rural growth centers in the region. Our council serves on a variety of advisory committees concerned with incubator facilities and we will have in place by the end of 1985, at least one, if not four, different incubator centers scattered throughout northeastern Pennsylvania.

Six, enterprise development areas and zone programs. We're all familiar with what has been proposed by the administration for enterprise zones. In Pennsylvania, we've already established enterprise development areas. Our Council was in the forefront to establish the methodology to establish these areas in our region based upon land use and demographic considerations. This methodology has been widely disseminated.

Seven, energy conservation and development. Part of our Enterprise Development Program is to assist businesses and industries in our region to help them overcome energy high costs. We've developed that through a designation as an energy center by the Governor's Energy Council.

Eight, the 503 program. Our enterprise development strategy includes the Pocono Northeast Enterprise Development Corp., which is our SBA 503 corporation. We've already developed and closed several projects.

Nine, venture capital funds. This is a new tool for economic growth in our region. Through private sector commitments and a Pennsylvania Ben Franklin Partnership technology grant, a northeastern Pennsylvania venture capital fund is being organized with $10 million of private sector capital together with $750,000 of State moneys. It all is coming about as a result of the impetus of the Appalachian Regional Development Program. We will use the $10 million of funds for equity financing where a company cannot obtain full financing from a local financial institution. This is a most exciting effort.

Ten, procurement outreach. We have an extensive procurement outreach program which has already reached 800 firms. We've closed on 19 projects for 14 different firms, totaling $1.7 million of Federal contract awards or State contract awards. I visualize this growing tremendously in the future. It's also coming about because of the Appalachian program and Pennsylvania's enterprise development efforts. This partnership process has enabled one important element to occur. It is the single most important contribution which the Appalachian Regional Development Program has made to America and that has been the partnership process between and among Federal, State, county, and municipal governments and the private sector.

Even more important is the process by which decisions are reached as to new ways to encourage economic growth. In our system of government which currently exists in the United States, the Appalachian Regional Development Program is the finest intergovernmental private/public partnership ever invented. It typifies how other Federal and State programs should be delivered, the attributes of which have been the hallmark of northeastern Pennsylvania's regional multicounty process which has made the private sector a strong vital partner in the total process.

We believe that this has allowed one other major event in our State. It is attributed to the Appalachian Regional Program that Pennsylvania has been in the forefront of technology and, thus, has been created the Ben Franklin Partnership, which is Pennsylvania's version of high technology and it's used to encourage new technological ventures that are most important. We have four advanced technology centers in existence in the State, two of which serve northeastern Pennsylvania. One is Lehigh University and one is Penn State University. I am fortunate in being on the Ben Franklin partnership board as an appointee of the Governor. We are utilizing this throughout our region as another tool for enterprise development and economic growth. That has been added to by a $190 million bond issue which is designed for economic development which our State passed in April of 1984 and all 10 programs of that bond issue are being implemented. I raise that because of the questions that were asked this morning about what States are doing. What we think is that the State is doing a great deal on economic development, but it needs the continuing support of the Appalachian Program to make that process of public/private sector ventures workable.

Our Council administers the largest, in terms of dollars raised and number of members, private sector membership campaign for regional councils in the country. We raise $235,000 locally of mainly private sector dollars together with county and municipal contributions which total 460 members. We have a growing core of local support but that core needs to be embellished by the continuation of the Appalachian Regional Development Program. The job cannot be done alone by local initiatives. The ARC Program needs to be continued and hopefully modeled after the new system which Pennsylvania has created with its positive and successful use of Appalachian regional development resources.

We believe that the private/public sector partnership process is needed as much in the 1980's as it was in the 1960's and the 1970's. There are other initiatives. One is the Enterprise zone as has been proposed by Washington, and the Enterprise development area as is implemented in the State of Pennsylvania. That concept can be a successful venture and add to the series of economic tools for growth and development purposes, Therefore, we do subscribe to Enterprise Development programs and zones. Enterprise zones, however, cannot stand alone as the only tool for economic growth. They must be buttressed and supported with other types of economic strategies, that is the Appalachian Regional Development Program.

Let me add one other point. There are new economic development strategies that can be unfolded to complement the Appalachian Program. In a recent report issued by the Development District Association of Appalachia, dated February 23, 1985, and unanimously adopted by the board of directors and membership of the association, which includes all 69 development districts in the 13 State Appalachian region, a series of recommendations were made pertaining to new economic strategies for Appalachia. While I will not give you all these recommendations, I want to pick two or three out to give you some reference. By the way, that report was presented to the Governors of Appalachia at their meeting on February 23, 1985, in Washington, DC, when the Governors met to celebrate the 20th anniversary of the ARC. Here are some of the recommendations made. The Federal Government should not abandon support of areas which require outside assistance in order to make them competitive with the rest of the Nation, but instead should seek new ways to continue its partnership with State and local Government and the private sector to achieve a permanent stabilized economy for all distressed areas, including Appalachia. The development districts recognize the tremendous demands now placed upon State budgets. Nevertheless, the enormous need for development infrastructure and the decreased amounts of Federal aid available requires that State governments consider increasing their participation with their local governments in financing local development needs.

Next, Appalachian States working with ARC and other funding sources, should consider establishing enterprise development oriented capital loan funds and small business development programs to meet the need for small business creation in the region. There are nine recommendations that are included in that report plus four suggestions that were made as a basis for continuing the work of the Appalachian Program and expanding upon it. One is that regionalism has proven to be an effective and efficient way for promoting community and economic development. Therefore, when and if new Federal and State aid programs evolve, development districts should be considered as a mechanism upon which these programs are planned and implemented at the local level.

Let me summarize by saying that the ARC Program works. It's been an indispensable tool for economic growth in our recovery of northeastern Pennsylvania. In a very cost-effective manner, it has demonstrated its ability to meet problems, challenges, and opportunities in a manner that provides a rate of return on its investments.

Enterprise Development should be the keystone for continuing the Appalachian Regional Development Program. By the very essence and makeup, the ARC Program has provided a bridge to link private sector and public sector interests and resources together. This is happening through the process of decisionmaking at the grassroots level with the Federal Government and State government as partners. It's truly a partnership among all levels of government and the private sector.

Finally, the ARC Program is the least bureaucratic and most innovative of all Federal programs in existence. It is New Federalism at work. Rather than being proposed for elimination, it should be proposed for emulation. I would urge the Subcommittee on Economic Development to recommend continued funding of this vitally needed program. The job of repairing years of neglect is not complete. Much more remains and can be accomplished through new reauthorization legislation. The feature film commemorating the activities and accomplishments of the 20th anniversary of the ARC Program is titled, "More Than a Promise." With your continued support, this promise can be fulfilled. Thank you.

Mr. NOWAK. Thank you very much, Mr. Grossman.

Now we'll hear from Mr. Shepherd, the executive director of the Land-of-Sky Regional Council, Asheville, NC.

Mr. SHEPHERD. Thank you, Mr. Chairman.

On March 5 and 6 in Asheville, the city that my office is located in, approximately 120 government, business and civic leaders met to discuss the future of the Appalachian portion of North Carolina in terms of what should be done with any future funding, as well as what should be done if no funding was forthcoming. Some very urgent steps would have to be taken.

We knew that the Commission was not meant to last forever and we agreed that the program should end—in another 20 years.

One thing the local people told us is that time is needed to assure that the development process is not stopped and time to assure that the six local development districts in our State can work to develop a more secure funding base. Time is needed to work with the State to develop alternative infrastructure financing programs and time for joint evaluation by the State and local governments of the prospects for completion of the unfinished segments of the Appalachian Highway System.

We need to be assured that the Governors Finish-Up Program presented to Congress in 1981 will be completed. This would allow the districts and the Appalachian States time to pursue the development of State programs which might at least partially compensate for the loss of the ARC investment program.

I have a deep appreciation for the ARC and what it has meant to my native region. I have had the opportunity to become acquainted with problems and needs of 13 States, as a past president of the Development District Association of Appalachia. I have seen how that through the Commission's partnership approach the process has worked to address the quite varied needs of the three subregions.

The 29 western counties of North Carolina have received very important investments from the ARC. I point with pride to the projects in which ARC has made investments.

One of our two technical institutes would not even exist without the ARC. Our highly successful western North Carolina Farmers' Market is also another example. Altogether for the 4 Land-of-Sky counties there have been 11 water improvement grants, 8 sewer improvement grants, 14 health program grants, 18 grants benefiting education, and 20 grants or loans to stimulate housing construction, just to mention a few.

I wonder where our area would be without the economic and social infrastructure that the ARC has provided. I also wonder where our regions would be without the 20 years of funding that has been provided to the local development districts. The LDD funds have been subject to the priority setting of local elected officials with private sector input as to the programs and priorities on an annual basis.

Unlike the funds we receive for a variety of categorical programs I list in the prepared text, the ARC funds have enabled us to meet the economic development concerns of our region and its local communities. We have had the flexibility to assist local chambers of commerce and industrial commissions with plans and programs for continued development. We have had a big payoff in progress.

When our 20th anniversary ARC Conference for North Carolina was held 3 weeks ago, the representatives of all six local development districts considered the development of contingency plans for the Appalachian local development districts to be of the highest priority. The districts have been working to diversify funding bases by charging user fees. Local tax bases are very limited. Our State does not provide direct funding for districts. We're working on this but it will take time.

These folks additionally told us that the key needs of our area were water and sewer systems, flexible facilities and programs for vocational education, completion of the highway system, small business development programs that work, increased attention to marketing our products, better use of limited resources through planning, drop out prevention, natural resource protection, and affording access to the intergovernmental system by even our smallest towns.

They told us that the job of the Appalachian Regional Commission is not yet done.

We consider that North Carolina has been somewhat of a model in project selection and development. We've been careful in our project selection by having a "Mountain Marathon" which involves a week of meetings with Federal agencies, State agencies, and the local applicants. We insure that project proposals are understood, that proposed projects are eligible, what additional steps are necessary for final consideration, and what the process of selection will be. This has been utilized in a number of other States. The ARC Program is not a spending program; it is truly an investment program.

In early 1981, we did an impact study of the ARC Program. Some of the highlights of that report include: a $1.7 million investment in water system improvements and an access road had generated $280 million of property tax base, 23 new industries, 3,300 jobs, and an almost $47 million payroll; supplemental funding for a water line had created 650 jobs at an average cost to ARC of $400 per job; the construction of an allied health building and an investment in Forsyth Technical Institute. Our study demonstrated that the Appalachian Regional Development Program is a program that works.

I would summarize by saying to those who say the Commission approach is not one that will deal with the problems of the 1980's: the ARC local-State-Federal cooperative mechanism is, above all, a problem-solving mechanism. It has demonstrated that it can tackle a wide variety of economic, environmental, educational, health, housing, and other problems and opportunities.

To those who believe that national economic recovery will solve the problems of Appalachia, I would ask that they consider the many periods of recovery in our Nation's history and ask why Appalachia is not prosperous now. I would also ask you to visit counties of western North Carolina who still have double-digit unemployment.

To those who think that there is a question of geographic equity or fairness, I would ask how fairly the country has dealt with the Appalachian people for generations. I would also point out that even with the ARC help, Appalachia is not on par with the country as a whole in its receipt of Federal help. Neither does it benefit very directly in an economic sense from the priority given to defense expenditures due to this lack of defense-related industries.

To those who would argue that Congress' consideration of plans to carry ARC to the year 1990 goes beyond the Governor's original request for a Finish-Up Program through fiscal year 1987, I say that the Commission's programs have not had an opportunity to work fully over the past several years due to funding uncertainty and the resulting inability of local development districts and States to plan effectively.

Above all, the ARC should be continued because of its proven effectiveness and a continuing need. To stop where we are would leave an unfinished masterpiece. Congressman Roy A. Taylor, who represented my district for over 16 years and was a sponsor of the Appalachian Regional Development Act recently told me that he believed the ARC Program had done more for his district than any other program passed during his tenure in Congress. He said the major reason for this is that it has been the best managed since it relies on State and local officials with knowledge of local needs and priorities.

My own local officials, in surveys during 1981 and 1985, placed ARC and General Revenue Sharing as the top Federal assistance programs which have earned continued support.

If it works, let's don't destroy it. Thank you.

Mr. NOWAK. Thank you very much, Mr. Shepherd.

Now, we'll hear from Mr. Gatliff Craig, executive director, Cumberland Valley Area Development District, London, KY.

Mr. CRAIG. Mr. Chairman, honorable members of the committee, I'd like to preface the remarks that I have prepared for today by saying to you how I feel about this opportunity that you are affording my colleagues and me.

This is a first time experience for me and I admit to you I feel honored for being allowed to make this appearance.

As I thought on this subject this morning, my reflections took me back to my youth, to the backwoods elementary school where, as a gangling, barefooted seventh grader, we studied some about Government and I learned a little about the U.S. Congress.

I guess that, most times, we think of others meeting with you and discussing our area's needs. Certainly, in that rural school, where I was the only seventh grader, I never dreamed that I would have an opportunity such as this.

Second, I want to thank you, your colleagues, and those that were before you for your farsightedness, your compassion, and your wisdom in providing special help for this special area.

I know, as you know, that you have made a wise choice in supplying investment monies for this Appalachian area through the Appalachian Regional Commission. The dividends on this investment will be greater as time goes by especially if we are allowed to more suitably complete the job that is underway.

Sometimes, we hear questions as to whether this investment is morally right. I assure you that this investment that you are making is not only morally right, but economically sound. I know that you join me and everyone else in appreciation for the forward movement that has begun in Appalachia.

In the Cumberland Valley, we have this forward movement going. Not unlike most of Appalachia, we recognized early in the effort that we must develop a more diversified economy.

Our area may be classified as about half in the mountains and half in the foothills. The history of our economy has been an income from coal in the mountains and small family farms in the balance. You can imagine what happened to us in the 1950's and early 1960's when the coal market got in trouble and the small farm lost its ability to sustain a family. Resulting from this, nearly 50 percent of our people had to leave the area in search of a living. We were subjected to societal pressures to which we were not prepared.

With the help of the ARC, we are well on our way toward alleviating this problem. As evidence to this, the U.S. census figures show that between the years 1970 and 1980, our people are migrating back to this land where they can be most happy and most productive.

The ARC has furnished the seed, we have planted, and the increase is our witness.

The seed is the money that you have allocated. Once planted, matched, and supplemented by various other revenues, we have the beginnings of roads that make it possible to come back as well as to go.

We are impounding and treating water and via the ARC stimulus, we are getting help from other agencies, coupled with local efforts to install distribution lines through much of our rural area.

This encourages us to construct habitable housing and allows us to develop industrial and commercial sites to accommodate small industry and business.

From this comes jobs from which comes pride and satisfaction such as only a self supporting person can appreciate.

From this same seed springs the potential for answers to our many deficiencies in the field of health.

Not only do we have the Appalachian hospitals, but we are developing many rural health clinics for that populace in the more remote areas. We are training nurses and conducting incentive programs to encourage physicians to live and practice in the Cumberland Valley area.

Through the employment of the local development district concept, we have local officials and the citizenries of our small towns and counties working together. If we were forced to choose the most important benefit derived from the ARC, this might be the one. This has begun and it will last. The wall of partition is removed.

This may sound as though we are finished and that all needs are satisfied. I wish it were so. With our progress, we are pleased, but we cannot yet be satisfied. The effort needs some more time, more energy. and the ability to continue to plant and nurture the seed.

Again, I say, we in Kentucky appreciate your understanding, your wisdom, and your compassion as you have joined hands with us in these efforts.

As I reflect, I remember a quotation from the Apostle Paul as he reflected upon his life. He said, "I have fought a good fight, I have finished my course, I have kept the faith."

I assure you that we are fighting a good fight, we are keeping the faith, but our course is not yet finished.

Thank you.

Mr. NOWAK. Thank you very much to all four of the panelists who submitted statements. In going through a review of some of the arguments that have been levied against the agency as well as the ARC, I don't think we should apologize for having made some progress.

We'll thank you all again for appearing. We will move on to our next witnesses. These will be Mr. Don Darden, chairman, South Central Tennessee Development District, Columbia, TN; Mr. Thomas D. Moreland, commissioner, Georgia Department of Transportation; Mr. Robert Zdenek, president, National Council for Community Economic Development; and Mr. Arnold Cantor, assistant director, Department of Economic Research, American Federation of Labor and Congress of Industrial Organizations.

Thank you, gentlemen, for being with us today.

Mr. Darden, we'll begin with you. You may proceed as you wish.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF DON DARDEN, CHAIRMAN, SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT, COLUMBIA, TN, ON BEHALF OF THE NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. Chairman, I am Don Darden, County Executive of Coffee County, Tennessee and Chairman of the South Central Tenessee Development District in Columbia, Tennessee. I am here today to testify on behalf of the National Association of Regional Councils.

The National Association of Regional Councils represents almost 350 of the nation's 600 substate regional councils of local governments. Regional councils are agencies of local governments and operate under the direction of city and county elected officials. They fill a gap in our intergovernmental structure by dealing with problems that transcend jurisdictional boundaries and must be addressed on a regional basis. The basic responsibility of a regional council is to be an umbrella agency which facilitates regional coordination and management activities. Many regional councils also arrange for the implementation of regional policies.

As you know, Mr. Chairman, many regional councils function as economic development districts while still other councils have been involved in the metropolitan economic development demonstration program that was administered by EDA. Regional councils are involved in a variety of other economic development activities ranging from export development to revolving loan funds to technical assistance.

We appreciate the chance to comment on H.R. 10 which authorizes the new National Development Investment Act and the finish-up program for the Appalachian Regional Development Commission.

NARC has many members who are involved in the ARC program and so we're particularly glad to see that H.R. 10 includes the finish-up of the ARC non-highway programs and closely follows the proposals of the Appalachian governors. We believe these proposals offer a sensible approach to both meeting the still pressing needs of Appalachia and providing for an orderly phase-down of the federal investment in that region.

We applaud the leadership that you, Mr. Chairman, and the other members of the committee have provided in moving this proposal forward. We regret that while the House passed this bill last year by an overwhelming vote, the bill was never acted upon by the Senate.

EDA and ARC have been a tremendous boost to my region over the past several years. Thanks to funding from ARC, we were able to rehabilitate and ultimately save the railroad in my county. Because of this railroad, my county is now being considered as a site for a new General Motors plant.

In addition, financial assistance from EDA and ARC has made possible the newly developed 750 acre Interstate industrial park in Coffee County, Tennessee. This industrial park will create a number of new jobs and spur economic growth in our region.

Over 800 local government and regional council representatives from around the nation were in town for our annual Federal Briefing in February. I would like to say for the record that the support for HR 10 by that group of representatives continues to be strong and solid. The NARC Board of Directors and our policy committee have directed NARC to work with you and your committee, as well as the Senate, to get this bill enacted into law promptly.

Our primary concern is to address the National Development Investment Act. As I said, NARC strongly supports the principles embodied in this legislation. We believe the bill moves toward a new, flexible approach to meeting the economic development needs of the nation's local communities.

We strongly endorse your view, Mr. Chairman, that the local development investment strategy called for in the bill be comprehensive in nature and deal with the total economic development objectives of the community.

In fact, we view this process as a driving force in tying together the state and federal decisions which will achieve economic revitalization at the local level. We also envision the continuation of a strong areawide role in the program. In many instances, it is expected that the local community would request technical assistance from its areawide economic development district or council of governments on the preparation of the local investment strategy.

This action agenda embodied in the local investment strategy would project several years into the future. It would identify state or private funding sources, as well as reflect projected federal assistance.

We believe this approach would reinforce the emphasis in your bill to ensure that any economic development project receiving assistance would have to be integrated into the development strategy. Provisions in the bill which would tighten eligibility requirements and the changes in eligibility procedures will ensure that limited financial assistance will be targetted to truly distressed areas.

This approach encourages local communities to attack their problems in a comprehensive and coordinated manner. It is an approach NARC has long advocated.

We also applaud the bill's promotion of private sector participation in community economic development. Scarce government resources will cause many successful economic development efforts to hinge on the active support of business and on harnessing a variety of public and private resources. The proposed bill recognizes this economic reality.

Again, Mr. Chairman, we appreciate the opportunity to present our views and stand ready to assist you and the other members of the committee in working toward the passage of this important legislation.

Thank you.

TESTIMONY OF DON DARDEN, CHAIRMAN, SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT, COLUMBIA, TN, ON BEHALF OF THE NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. DARDEN. Mr. Chairman, I am Don Darden, county executive of Coffee County, TN, and chairman of the South Central Tennessee Development District in Columbia, TN. I am here today to testify on behalf of the National Association of Regional Councils.

The National Association of Regional Councils represents almost 350 of the Nation's 600 substate regional councils of local governments. Regional councils are agencies of local governments and operate under the direction of city and county elected officials. They fill a gap in our intergovernmental structure by dealing with problems that transcend jurisdictional boundaries and must be addressed on a regional basis. The basic responsibility of a regional council is to be an umbrella agency which facilitates regional coordination and management activities. Many regional councils also arrange for the implementation of regional policies.

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We also applaud the bill's promotion of private sector participation in community economic development. Scarce Government resources will cause many successful economic development efforts to hinge on the active support of business and on harnessing a variety of public and private resources. The proposed bill recognizes this economic reality.

Again, Mr. Chairman, we appreciate the opportunity to present our views and stand ready to assist you and the other members of the committee in working toward the passage of this important legislation. Thank you.

Mr. NOWAK. Thank you, Mr. Darden, for your valuable testimony.

We will now move on to Mr. John S. Hassell, executive assistant with the Georgia Department of Transportation.

TESTIMONY OF JOHN S. HASSELL, EXECUTIVE ASSISTANT TO MR. THOMAS D. MORELAND, COMMISSIONER, GEORGIA DEPARTMENT OF TRANSPORTATION

Mr. HASSELL. Thank you, Mr. Chairman. Mr. Moreland regrets that he couldn't be here in Washington today, and I will present his statement.

I appreciate you allowing me to appear before you today to discuss the Appalachian Regional Development Commission Program. In particular, I would like to address some comments to H.R. 10 which would provide for continuation of the work of the Appalachian Regional Commission and its programs in the member States.

H.R. 10, the National Development Investment Act, was introduced to provide for closeout of the Appalachian Regional Commission programs including the developmental highway system. Georgia has been a major beneficiary of the Appalachian Regional Commission programs through the years and in particular, the Developmental Highway Program [APD] has provided significant access improvements in north Georgia.

The northern part of our State for years lagged behind in economic development the progress being made through the Piedmont area and along the coastal region. The Appalachian Regional Development Act of 1965, which set into place the Appalachian Regional Commission and its programs, provided the first comprehensive approach to the economic betterment of this depressed region of our State.

Georgia has utilized the Developmental Highway Program to provide significantly improved access to the northern region of Georgia. Georgia, because of the difficult terrain in our Appalachian area, has for decades suffered from poor accessibility and the economic distress that goes along with the inability to move goods and materials in and out of a region. Georgia has now completed construction of 80 miles of its 146 mile route of the Appalachian Development Highway Program. We have used $86.9 million Federal APD funds to accomplish this construction.

The program has moved quite well until recent years when we have not had full funding of the developmental highway needs. Because of this, Georgia and seven other States, have prefinance construction of their developmental highways to further the goals set forth by Congress for the Appalachian Regional Commission.

These projects have been developed to full Federal standards and have been approved by the Federal Highway Administration, as have all other segments of the Appalachian Highway System. The attached table shows the prefinanced Federal share as of February 1985. As you can see, Georgia has advanced to the Federal Government, $29,167,000 toward completion of the Appalachian corridor in our State.

To deal with the question of equity with States like Georgia that have prefinanced portions of its sections of APD roads and to expedite the completion of the APD system, it is proposed that those States that have prefinanced portions of the APD system be refunded their prefinanced amount over a period of not more than 3 years, provided that these funds are used to further the development of the accepted priority segments of the APD system. Such reimbursements of prefinanced amounts would only be repaid to the State in the amount the State could effectively advance projects on their APD system and at the end of the year, any funds not utilized could be redistributed to other States that could advance their APD system. These States would not receive more funds under this approach than would have been provided under the allocation schemes that have been discussed. This approach would stimulate employment in the Appalachian region and accelerate completion of the Appalachian Development Highway.

Mr. Chairman, I urge this subcommittee, the full committee and the House to provide for a continuation and orderly termination of the Appalachian Program if that is your desire. As you know, the administration and the Senate Budget Committee have recommended a precipitous immediate termination of this program for 1986. The diseconomies of such an abrupt cessation of a program that has worked so well for 20 years is not in the best interest of the region, of the States or the Nation. I urge that as you consider legislation, you would recognize the prefinanced portions of the Appalachian highway system as part of any strategy used to deal with the termination of the Appalachian Program.

Mr. Chairman, that concludes my statement.

Mr. NOWAK. Thank you, Mr. Hassell, for filling in and we appreciate your testimony very much.

Our next witness will be Mr. Robert Zdenek, president of the National Council for Community Economic Development. Mr. Zdenek, you may proceed as you wish. The full text of your prepared statement will appear in the record at this point.

[Mr. Zdenek's prepared statement follows:]

TESTIMONY OF ROBERT O. ZDENEK, PRESIDENT, THE NATIONAL CONGRESS FOR COMMUNITY ECONOMIC DEVELOPMENT ON H.R. 10

Mr. Chairman, The National Congress for Community Economic Development (NCCED) appreciates this opportunity to testify in support of H.R. 10, the National Development Investment Act, which proposes to amend the Public Works and Economic Development Act of 1965. NCCED is a national membership association of over 100 community-based development organizations, most of which are community development corporations engaging in the economic revitalization of distressed communities through small business development, physical development and employment generation activities.

Thousands of jobs created for low-income and minority citizens are the result of community development corporations (CDCs) fostering CED in their neighborhoods. Community development corporations were started as comprehensive economic development vehicles for revitalizing low-income and minority communities. CDCs are community-based organizations, whose board of directors are composed of low-income and area residents and employ professional economic development staff. CDCs implement a range of development projects including industrial development, commercial revitalization, job creation and business development, job training, venture capital investments and housing rehabilitation. An evaluation of the federal

Title VII program completed in 1981 examined the records of 15 CDCs and found that they had completed 288 distinct ventures with investment capital, created 2.3 million square feet of commercial/industrial space, and created 23,000 person-years of direct employment. The Urban Institute conducted a major study on CDCs in 1982 for the Department of Housing and Urban Development (HUD) and found that one of the major benefits of CDC projects is that the positive impact is targeted to neighborhood residents and business-people, especially those of limited means. In addition, the Urban Institute stated that CDCs had successfully completed most of their projected tasks despite rising interest rates and declining public funding. Many of these projects, as we will demonstrate, were carried out with the assistance of funds from EDA.

While we acknowledge that some sectors of the economy have improved in the past seven years, the number of people moving into the poverty category has increased. Most of those communities that were distressed five and ten years ago remain distressed today. Unemployment, while down over the past few years, remains just as high among minorities and low income peoples. Plant closings and job loss in the manufacturing sector has accelerated, creating sudden economic loss and job dislocation. Moreover, the resources available to counter these problems, and many others, are dwindling at a time when they are more needed than ever.

While many people tout the importance of economic development as a qualitative process for the revitalization of America's cities, and especially the role of the private sector, there is still a lack of concensus as to the role of the private sector vis-a-vis the public sector. It is NCCED's contention that there is a role for both, especially considering the more limited role of the private sector in distressed communities. We also feel that a federal development strategy can be, and should be, complementary to state and local development activities. NCCED agrees that many development activities can be carried out at the state level, but states still have limited knowledge in this capacity. NCCED has been working with states for over seven years and our research has indicated a definite lack of information and knowledge in the areas of community economic development. Moreover, the poorest states, which have the greatest development needs, have the least ability to carry out economic development strategies. While Governors and state legislators want to do more, the resources are not available.

Without a federal role, some states and localities will be consigned to an underdevelopment trap—permanent economic distress. The human costs will be substantial and will represent a waste of potentially valuable economic resources. Our nation cannot afford such a waste as we attempt to maintain our international economic leadership.

One of the major problems that inhibits the "revitalization" problem is the severe decline of the nation's infrastructure. It is difficult to have economic growth without essential infrastructure maintenance, replacement and development. In a widely quoted publication, "America in Ruins: Beyond the Public Works Pork Barrel" the author noted that there is a 29 percent decline in public works investment in constant dollars from 1965 to 1977, a period where government spending increased rapidly elsewhere, especially defense spending. The National Development Investment Act provides for needed revenues for construction, repair, rehabilitation and improvement of public facilities, including land acquisition.

On a more optimistic note, many studies have confirmed the importance of small business in creating jobs and product innovation. Small businesses face numerous market and institutional barriers that result in a disproportionate rate of failure. Lack of access to capital is a major reason for these failures. This "capital gap" is further compounded in distressed areas and is due to:

Information costs.—There is a need for financial, management and legal expertise in assisting individuals who want to start-up businesses. Individuals need to access this information, just as unemployed individuals need job bank information and placement services.

Transaction costs.—The cost of collecting information to identify and evaluate investment opportunities in small business or distressed areas is expensive for potential lenders. The costs are highest for small businesses distressed areas where lenders have little comparable information on which to base their judgements. Since transaction costs do not rise proportionately with business size, banks naturally tend to seek large projects, where the costs will be spread over greater interest payments.

Risks.—A principal deterrent to investment in unknown new firms is risk—the uncertainty that a loan once made will be repaid. Banks, investors and other lenders often refuse to underwrite investments in new firms or loans to companies located in distressed areas.

H.R. 10 provides authorization for revolving loan funds (RLFs) which have proven to be one of the most effective economic development tools available. RLFs can provide direct loans or loan guarantees to small and new businesses that will enable them to either start-up or expand, resulting in the creation of numerous jos. RLFs require private financing of the business, but they provide the critical gap financing that is often the critical component for private sector participation and often the difference between success or failure.

While there is a need for subnational development tools and resources, it is important that they be targeted to projects in areas of severe distress or experiencing severe economic adjustment problems. Community development corporations (CDCs) operate in some of the most distressed areas of the United States including: Bedford-Stuyvestant, Harlem and the South Bronx in New York City; Hough neighborhood in Cleveland; Union Sarah in St. Louis; Oakland; Southeastern Kentucky, the poorest area in Appalachia; rural Alaska and the Navahoe reservation, to name just a few. These communities, while unique, exhibit severe economic distress characterized by: inadequate or antiquated physical infrastructure; high rates of unemployment; lack of growth-oriented small business; low rates of capital formation; and inadequate housing. CDCs have begun the ardous task of economic revitalization with noted success and some failures, but the successes would have not been possible without the valuable tools and resources previously available from national economic development programs like those of the Economic Development Administration, the Office of Community Services and Office of Human Development Services at the Department of Health and Human Services and the Department of Housing and Urban Development.

In the most severely distressed communities, the private sector is limited in its ability to address these issues. Without infrastructure improvements, crime prevention and local community support there is are no incentives for action. One of the primary determinants of business location is the availability of infrastructure improvements. Public resources, such as those of EDA, combined with local capacity, such as CDCs are necessary ingredients in creating local development strategies and viable public/private partnerships.

CDCs have made very good use of EDA funds. For example:

Union Sarah is a predominantly black community of 32,000 in St. Louis, characterized by severe economic distress including an unemployment rate of over 25 percent. The Union Sarah Economic Development Corporation, a CDC, has utilized EDA funds for a commercial revitalization effort designed to bring businesses and jobs back to the community. They acquired an abandoned 147,000 square foot building and renovated it with EDA funds. The renovated building, Central West Plaza, has been leased to over 85 percent of its space on a long term basis. Over 200 jobs were created for neighborhood residents and the rents generated provide over $350,000 in revenues beyond expenses for other economic development efforts.

Impact Seven, Inc., a CDC located in Turtle Lake, Wisconsin serves a large rural economically distressed area consisting of six counties and two Indian reservations with a population of 160,000. Impact even, Inc., has carried out a very unique real estate financing project using EDA business development assistance. Impact Seven, Inc., was approached by a high technology computer manufacturing firm, Cray Research, which was in need of expansion capital for its manufacturing operation located in Chippewa Falls, Wisconsin. At the time, Cray Research was in a new facility with 32,000 square feet of space. Impact Seven bought the property for $1.2 million, using $420,000 of their own resources and the rest with EDA funds. The building was then leased back to Cray, who could use the proceeds of the sale to expand their facilities. The net result was the creation of 125 new jobs, primarily in engineering and design, and 225 jobs retained.

Southwest Virginia Community Development Fund (SVCDF), a CDC serving urban Roanoke and two contiguous rural counties has successfully initiated two EDA development projects over the past several years.

SVCDF developed a 15-acre industrial project utilizing EDA and other public and private resources. This project received a $970,000 commitment from EDA and has developed twelve industrial parcels, seven of which have been sold and occupied resulting in over 200 jobs generated. The SVCDF accomplished the project for less than $750,000, resulting in a cost per job created per EDA funds at $3,700.

As a result of the success of the first industrial park, EDA provided $1 million for a second industrial park in 1980 located in an intercity area. One element of the project is to focus on infrastructure improvements for business retention efforts. The City of Roanoke is a partner in the project. One of the businesses retained saved 200 jobs and created 75 more because the additional funds provided to SVCDF allowed it to help the business secure a $100,000 loan to stay in the area.

Eastside Community Investment, Inc. is located in Indianapolis, Indiana. Formed in 1976, it serves a deteriorated area of approximately 29,000 on the near east side of Indianapolis in Marion County. Unemployment in this area has reached 16 percent and the median income of residents is roughly $13,740, approximately two-thirds of the median income for everyone else in the county. One of ECI's projects focused on the construction of an industrial park and the utilization of a business development center and a small business investment corporation. ECI received $786,000 from the City of Indianapolis and $714,000 from the Economic Development Administration to build the park. Since the park's construction in 1979, 310 new jobs were created and another 100 were retained.

The Economic Development Council of Northern Vermont (EDCNV) is an Economic Development District serving the five northern rural counties of Vermont. In 1979, and then again in 1981, EDCNV received from EDA a total of $1 million dollars to capitalize a revolving loan fund. Since beginning operation, the fund has approved financing of over $1.3 million (they have returned $300,000 to the fund for additional projects), private investment has exceeded $8 million of which $750,000 was equity financing from the business owners. Over 30 firms have been helped, approximately 464 jobs have been created and over 367 retained as a result of this financing.

Of the loans made, 71 percent were for fixed asset financing, 20 percent for working capital and 9 percent a combination of the two. For profit firms compose 76 percent of the portfolio and local development corporations the remainder. The average term of the loan is 8.1 years and the average rate of loans is 8.86 percent.

EDA also provided a $720,000 grant in 1979 to the St. Johnsbury-Lyndon Industrial Park. The park is particularly significant because it is the first use of tax sharing between communities in Vermont and required a special act of the state legislature. St. Johnsbury owned most of the land in the park but lacked the sewage facilities to service it properly. Lyndon did have the excess capacity. The two communities combined their assets and are splitting the tax revenues as a result of the shared resources.

The park is occupied now by a moving firm and a machine tool company that employs over 30 people. Because the park existed, the machine tool operation was able to expand and stay in the area. The firm started out as a basement operation among local residents, moved to a small business incubator facility in St. Johnsbury with the help of the local development company and then, as additional space was needed and the firm was more established, moved to the industrial park. The firm is now a major subcontractor to General Electric.

After having carefully reviewed H.R. 10, we feel that it is a concise, well defined bill that provides important economic development tools to various entities. NCCED agrees with section 105 which provides for targeting provisions that were lacking in previous legislation. We are concerned, however, regarding the definition of "area" and think that it could be more specific. For example, Washington, D.C. would be eligible under the definition, yet there are areas of the District of Columbia that should not be eligible, such as Georgetown. The immediate area where the project is to be located should meet the distress criteria in section 105, as well as the overall city or county.

We also agree with the federal share provision of section 108 that the maximum amount of any grant under H.R. 10 should not exceed 50 percent of the cost of the project. It is essential for grantees to leverage other public and private resources to ensure that the scarce resources in H.R. 10 can be utilized for as many development projects as possible. Other federal, state, local and private resources should count for the purpose of matching funding under section 108.

While we agree with most of the provisions in H.R. 10, there is a minor amendment that we would like to see made. Title II provides for investment strategy and planning resources that will build capacity and provide potential recipients of infrastructure and RLFs funds to plan and administer projects financed under H.R. 10. Since CDCs and other community-based economic development organizations are eligible for projects under H.R. 10, it is important that they be provided an opportunity to compete for planning funds under this act. With the considerable cut-backs of public economic development resources, there is a need to provide limited planning resources to all eligible entities in H.R. 10. Another important consideration is that rural CDCs, which serve multi-county areas, e.g. 10 or more counties, are not congruent with existing economic development districts or represent areas that are not served by economic development districts. We feel that an amendment should be made that makes entities eligible under the Community Economic Development Act of 1981 eligible applicants of this act.

Mr. Chairman, we want to thank you and other committee members for having the opportunity to testify on behalf of H.R. 10.

Mr. NOWAK. Please proceed.

TESTIMONY OF ROBERT ZDENEK, PRESIDENT, NATIONAL COUNCIL FOR COMMUNITY ECONOMIC DEVELOPMENT

Mr. ZDENEK. Mr. Chairman, the National Congress for Community Economic Development appreciates this opportunity to testify in support of H.R. 10 which proposes to amend the Public Works and Economic Development Act of 1965. NCCED is a national membership association of over 100 community-based development organizations, most of which are community development corporations engaging in the economic revitalization of distressed communities through small business development, physical development and employment generation activities.

While we acknowledge that some sectors of the economy have improved in the past 7 years, the number of people moving into the poverty category has increased. Most of those communities that were distressed 5 and 10 years ago remain distressed today. Unemployment, while down over the past few years, remains just as high among minorities and low-income peoples. Plant closings and job loss in the manufacturing sector has accelerated, creating sudden economic loss and job dislocation. Moreover, the resources available to counter these problems, and many others, are dwindling at a time when they are more needed than ever.

Without a Federal role, some States and localities will be consigned to an underdevelopment trap, permanent economic distress. The human costs will be substantial and will represent a waste of potentially valuable economic resources. Our Nation cannot afford such a waste as we attempt to maintain our international economic leadership.

One of the major problems that inhibits the revitalization problem is the severe decline of the Nation's infrastructure. It is difficult to have economic growth without essential infrastructure maintenance, replacement and development. There was a 29 percent decline in public works investment in constant dollars from 1965 to 1977, a period where Government spending increased rapidly elsewhere, especially defense spending. The National Development Investment Act provides for needed revenues for construction, repair, rehabilitation and improvement of public facilities, including land acquisition.

On a more optimistic note, many studies have confirmed the importance of small business in creating jobs and product innovation. Small businesses face numerous market and institutional barriers that result in a disproportionate rate of failure. Lack of access to capital is a major reason for these failures. This capital gap is further compounded in distressed areas and is due to information costs, transaction costs, and risks.

H.R. 10 provides authorization for revolving loan funds which have proven to be one of the most effective economic development tools available. RLF's can provide direct loans or loan guarantees to small and new businesses that will enable them to either start up or expand, resulting in the creation of numerous jobs. RLF's require private financing of the business, but they provide the critical gap financing that is often the critical component for private sector participation and often the difference between success or failure.

While there is a need for substantial development tools and resources, it is important that they be targeted to projects in areas of severe distress or experiencing severe economic adjustment problems. Community development corporations operate in some of the most distressed areas of the United States including Bedford-Stuyvestant, Harlem and the South Bronx in New York City, Hough in Cleveland, Union Sarah in St. Louis, Oakland, southeastern Kentucky, rural Alaska, and the Navajo reservation. These communities exhibit severe economic distress characterized by inadequate or antiquated physical infrastructure, high rates of unemployment, lack of growth oriented small business, low rates of capital formation and inadequate housing. CDC's have begun the arduous task of economic revitalization with noted success and some failures, but the successes would have not been possible without the valuable tools and resources previously available from national economic development programs like those of the EDA, the Office of Community Services, and the Department of Housing and Urban Development.

In the most severely distressed communities, the private sector is limited in its ability to address these issues. Without infrastructure improvements, crime prevention and local community support, there is no incentive for action. One of the primary determinants of business location is the availability of infrastructure improvements. Public resources, such as those of EDA, combined with local capacity, such as CDC's, are necessary ingredients in creating local development strategies and viable public/private partnerships.

After having carefully reviewed H.R. 10, we feel that it is a concise, well defined bill that provides important economic development tools to various entities. NCCED agrees with section 105 which provides for targeting provisions that were lacking in previous legislation. We are concerned, however, regarding the definition of area and think that it could be more specific. For example, Washington, DC would be eligible under the definition, yet there are areas of the District of Columbia that should not be eligible, such as Georgetown. The immediate area where the project is to be located should meet the distress criteria in section 105, as well as the overall city or county.

We also agree with the Federal share provision of section 108 that the maximum amount of any grant under H.R. 10 should not exceed 50 percent of the cost of the project. It is essential for grantees to leverage other public and private resources to ensure that the scarce resources in H.R. 10 can be utilized for as many development projects as possible. Other Federal, State, local and private resources should count for the purpose of matching funding under section 108.

While we agree with most of the provisions in H.R. 10, there is a minor amendment that we would like to see made. Title II provides for investment strategy and planning resources that will build capacity and provide potential recipients of infrastructure and RLF's funds to plan and administer projects financed under H.R. 10.

Since CDC's and other community-based economic development organizations are eligible for projects under H.R. 10, it is important that they be provided an opportunity to compete for planning funds under this act. With the considerable cut-backs of public economic development resources, there is a need to provide limited planning resources to all eligible entities in H.R. 10. Another important consideration is that rural CDC's which serve multi-county areas, are not congruent with existing economic development districts or represent areas that are not served by economic development districts. We feel that an amendment should be made that makes entities eligible under the Community Economic Development Act of 1981 eligible applicants of this act.

Mr. Chairman, we want to thank you and other committee members for having the opportunity to testify on behalf of H.R. 10.

Mr. NOWAK. Thank you, Mr. Zdenek.

Our next witness will be Mr. Arnold Cantor, assistant director, Department of Economic Research, American Federation of Labor and Congress of Industrial Organizations.

Mr. Cantor, it is good to see you again, and I thank you for your patience. The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

TESTIMONY OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION SUBCOMMITTEE ON ECONOMIC DEVELOPMENT ON H.R. 10, THE NATIONAL DEVELOPMENT INVESTMENT ACT

85-9

MARCH 26, 1985

I am pleased to have this opportunity to reaffirm the AFL-CIO's support for H.R. 10 which would continue the Federal government's area and regional economic development programs.

In February, the AFL-CIO Executive Council voiced its strong opposition to the Administration's relentless squeezing of federal domestic programs. The Administration's attempt to end the programs of the Economic Development Administration was specifically opposed and the Executive Council spelled out a comprehensive set of programs to deal with the nation's job and social program needs.

The attached statement on the Job Deficit outlines the AFL-CIO Executive Council's position and spells out many approaches that are consistent with the objectives of the National Development Investment Act (H.R. 10).

Among other things, the statement points out the need for job creation and the costs that we as a nation bear due to joblessness. For each percentage point in joblessness, $32 billion in taxes are foregone and an additional $7 billion in social welfare costs are incurred.

H.R. 10 would continue the programs of the Economic Development Administration for three more years and at the same time target the aid in a manner responsive to the unfortunate fact that federal funds are in very short supply and any monies that can be made available must be parceled out stringently. The bill also includes a finish-up program for the Appalachian region which reflects modest proposals of the Governors in the region to complete both the highway and nonhighway programs.

The programs that this bill would continue were originally put in place in recognition of the fact that many areas do not participate fully when the economy generally is growing and prosperous and during recessions some areas suffer much more severely from economic dislocation, distress, high unemployment, under employment and out migration. It was also recognized that the existence of regional economic problems adversely affected the nation's overall ability to grow and reach full employment goals.

These factors are as true today as they were when Congress first acted in the early 1960s to blunt some of these regional disparaties through the Area Redevelopment Act of 1962, the Appalachian Regional Development Act and Public Works Economic Development Act of 1965.

Despite over two years of economic recovery, overall unemployment at 7.3 percent of the labor force is far too high and much higher rates of joblessness and severe economic problems affect many areas and groups.

In February, there were 8.4 million Americans officially unemployed. In addition to this, 5.3 million people worked part-time because full-time work was not available. Another 1.3 million people were too discouraged to seek jobs which were not there. Thus, the official unemployment rate of 7.3 percent adds up to 15 million Americans directly affected.

A closer look at the data clearly shows that economic recovery continues to exclude many groups and regions. For example, while the overall jobless rate is 7.3 percent, the rate is much higher for Hispanics (9.7 percent), blacks (16.3 percent) and teenagers (18.4 percent). In the construction industry the jobless rate is 13.4 percent and there are almost 800,000 unemployed construction workers. Moreover, many cities and whole states are being left behind. In January, the Bureau of Labor

Statistics found that 41 (or 18 percent) out of the 224 metropolitan areas in its nationwide survey had jobless rates above 10 percent. The latest Labor Department surveys show that the following eight states had jobless rates above 10 percent:

West Virginia	15.9 percent
Mississippi	11.6
Alabama	11.3
Alaska	11.2
Louisiana	11.2
Washington	10.8
Oregon	10.3
Indiana	10.2

The Labor Department has also classified over 1,800 areas of the country, as labor surplus areas, the highest ever. These areas, counties or cities of 50,000 population, experienced average unemployment rates of over 10 percent over the two year period 1982-1983, showing not only the depth, but the duration of economic decline in many areas of the country.

In addition to the disparate nature of the present economic recovery there is widespread concern for the recovery's strength and duration. There are many unknowns and many factors that seriously threaten the future course of the economy and the indications of weakness and instability are growing. There are the huge, unprecedented budget deficits, the extraordinary trade imbalances, continued high real interest rates, as well as the effects of the overvalued dollar, and the willingness of foreigners to continue to invest in the United States and the ability of this nation to sustain and expand domestic production and jobs.

These factors certainly argue in favor of continuing and strengthening programs that have proven records as effective tools to help stimulate economic growth and stability.

For nearly 20 years these programs have benefitted from Congressional scrutiny and a growing expertise in dealing with regional economic development issues.

The EDA with an investment of about $5 billion over nearly a 20 year period has leveraged twice that amount in private capital and has generated about 1.5 million private sector jobs, and through its seed money to communities and businesses added billions of dollars to the federal, state and local treasuries.

We also believe that the nations festering infrastructure problems must be met.

Today, one of the most pressing problems facing states and cities is the need to rebuild and repair a huge part of their public capital -- the infrastructure problem. It has become well known that we have serious deficiencies in our highways, bridges, rail systems, urban transit systems, ports, inland waterways, dams, urban water systems, and waste treatment systems. There is no consensus on the dollar needs, but there is no denying that the dimensions of the problem are huge.

An indication of the difficulties currently facing the nation in the public works investment area is provided by the long-term decline in public capital spending. State and local public investment, excluding federal aids, peaked at $60 billion in the late 1960s. By 1984, spending had been cut nearly in half to $30 billion (1984 dollars). Federal expenditures dampened the decline somewhat, but even with federal grants there was a drop of 28 percent -- from $82 billion in 1969 to $59 billion in 1984 (See Table). This downward trend is also reflected in the steep decline in the ratio of public capital spending to GNP. For states and localities, this ratio was 2.5 percent of GNP in 1969, and 1 percent in 1984, and for all levels of government, including federal, it was 3.4 percent in 1969, and 1.9 percent in 1984.

The modest 1984 increase in public works construction interrupted a long-term decline which began in 1968. Part of this decline reflected progress in completing the Interstate Highway System and the reduced school-age population. The chief cause, however, was deferral of public investment needed to replace aging structures and to accommodate economic growth. This underinvestment has added to the serious deterioration of the nation's infrastructure.

Some of the symptoms are poorly maintained roads, closed bridges, leaking water supply lines, unsafe dams, and energy wasting buildings. According to the U.S. Department of Commerce, the magnitude of this underinvestment is so great that an estimated $30 billion (in 1984 dollars) would have to be spent annually for the rest of this century, in addition to the current level of investment, to restore most of the infrastructure to good condition.

The National Development Investment Act under Title I would provide grants to cover a portion of eligible projects that include:

- The construction and repair of public facilities as well as the acquisition of land, and other public improvements to encourage and support private development;
- Revolving loan funds to support the establishment and growth of small businesses and to retain local firms which contribute to jobs;
- Feasibility studies and other technical assistance for development; and
- Activities to prevent economic dislocation and facilitate economic adjustment.

State, units of local government, Economic Development Districts and organizations would qualify for assistance if they met a variety of qualifications designed to assure the deveolpment - investment purposes of the bill are furthered. Eligibility is limited to activities which would be carried out or located in an area which:

1. Has a per capita income of 80 percent or less of the national average;
2. Has an unemployment rate of one percent above the national average for the most recent 24-month period;
3. Has experienced, or is about to experience, a sudden economic dislocation and a significant job loss.

In approving applications the severity of distress in the area, private sector state and local government commitments and the effectiveness of the development investment strategy to contribute to long term economic growth and private sector employment opportunities would all have to be considered. The bill also contains an anti-piracy provision which we believe is a critical component to any development program in order to assure that net additional jobs are generated and to discourage inter- and intrastate destructive competition for jobs and industries. The absence of such protection, for example, is a major flaw in the many "enterprise zone" legislative proposals.

Under H.R. 10 an applicant for a grant also has to prepare and submit a development investment strategy for the area. Such a strategy would have to identify the economic development problems to be addressed; the past, present and projected economic development investments and public and private participants, and sources and funding for such investments in the area; the extent to which the development investment strategy takes into account availability of land, public works, public service and development facilities in the area, capital, level of skill in the labor force, and the ability of state and local governments to provide financial assistance. There would also have to be an estimating of the cost, and the anticipated benefits and a timetable for completion. The plan would have to demonstrate participation of small business concerns by socially and economically disadvantaged individuals, and would participate in all phases of development and implementation of the development investment strategy.

The Secretary would also be authorized to make grants to an applicant and to a state to establish a revolving loan fund from which new loans or guaranteed loans could be made to small businesses for initial working capital, or for the purchase, rehabilitation or expansion of facilities or for equipment.

The grants are limited to a participation in the total cost of completing each project. Federal funding for a public works facility or land acquisition project could not exceed 50 percent of the cost -- the rest would have to come from private, local and state government sources.

The amount of a federally funded grant to establish a revolving loan fund could not exceed an amount equal to the amount of funds available from all other sources. In the case of grants to an Indian tribe, the Secretary could reduce or waive the non-federal share.

No more than 15 percent of the appropriations made pursuant to Title I, could be expended in any one state. There would also be a limitation of $2 million for grants to any "person" in any fiscal year and prevailing wage laws would have to be obeyed. Other provisions would set mandatory target dates.

The total amount authorized would be $425 million for each of the fiscal years 1986, 1987, and 1988.

Title II of H.R. 10 authorizes grants for investment strategy, planning, evaluation and demonstration projects, evaluations of federal, state or local development investment efforts, in order to assist in determining the causes of unemployment, economic adjustment problems and chronic distress in areas and regions of the country.

Grants to colleges and universities and other non-profit educational and research organizations could be made to provide technical assistance for purposes of promoting productivity, economic development and employment opportunities.

The bill also provides funds for a study regarding the financing needs for construction, repair and rehabilitation of public facilities. The ability of the state and local government to meet public facility financing needs.

Finally, H.R. 10 would extend the authority for the Appalachian Regional Development program. It would also authorize administrative expenses and program expenses and the continuation of both the non-highway and the highway programs for the Appalachian Regional Development program under the Commission. Funding would be provided for the non-highway programs through 1990. It reduces the maximum non-highway grant from 80 percent to 50 percent. Under the highway program, it provides funding for the completion of the Appalachian highway system by 1992.

We believe these programs have worked in the past, they are needed now and they represent an adaptable framework for helping to solve many of the problems that will inevitably surface as this nation copes with problems of economic dislocation and deteriorating public facilities. We believe the National Development Investment Act is an appropriate and realistic effort to continue the nation's economic development programs. We are pleased to support this bill.

GOVERNMENT SPENDING FOR CAPITAL INVESTMENT
IN BILLIONS OF FY 1984 DOLLARS

Year	Federal Direct	Federal Grants--in-Aid	State and Local	Total
1969	$6.8	$18.1	$66.5	$91.5
1970	6.6	19.3	57.4	83.2
1971	7.3	19.7	56.3	83.3
1972	8.5	19.7	52.7	80.9
1973	8.5	19.7	52.9	81.1
1974	8.7	19.7	54.4	82.9
1975	8.7	18.6	52.3	79.5
1976	8.7	22.1	47.9	78.7
1977	9.2	25.1	35.1	69.4
1978	10.3	25.9	36.3	72.5
1979	10.8	24.9	36.3	72.1
1980	9.9	24.9	37.0	71.8
1981	9.6	23.0	35.1	67.8
1982	8.7	20.4	33.9	63.0
1983	8.2	20.7	33.8	62.7
1984	9.9	22.3	33.6	65.8

SOURCE: Office of Management and Budget and Commerce Department

Statement by the AFL-CIO Executive Council

on

The Job Deficit

February 19, 1985
Bal Harbour, FL

While the nation's attention is focused on the budget and foreign trade deficits, the deficit in job opportunities poses an equal threat to the nation's future.

President Reagan's election victory last November was not an endorsement of the Administration's deficit in fairness, its deficit in compassion, or its deficit in concern for economic development and human needs.

Because of the job deficit, 8.5 million Americans are officially unemployed, and 7 million more are either too discouraged to seek jobs or can find only part-time jobs. Even after more than two years of expansion from the low point of the Reagan recession, unemployment remains far higher than in previous expansions and higher even than at the depth of several postwar recessions.

Faster economic growth, providing more and better jobs, is essential. Action in both the private and public sectors is urgently needed, and the federal government has a special responsibility to take the leading role.

AFL-CIO Program

The AFL-CIO calls for a comprehensive set of programs to deal with the nation's economic and social needs. Some of these programs have no cost impact on the federal budget. Some will actually save money. Some have added costs that we firmly believe would bring substantial savings over the years. Programs that invest in people and help them to realize their full human potential cannot help but lower long-term welfare and other public costs. Specifically, we call for programs:

- To reduce the federal budget deficit, Congress must enact fiscal policies that accomplish the nation's twin responsibilities of providing for the common defense and promoting the general welfare. AFL-CIO recommendations are spelled out in detail in our statement on The Budget Deficit.
- To reduce the trade deficit, the variety of actions we propose are spelled out in our statement on The Trade Deficit.
- To reduce the job deficit, the central focus of the nation's fiscal monetary, trade, employment and training policies must aim at reducing the present unacceptable unemployment levels.
- To protect jobless workers and their families, Congress should enact a permanent unemployment insurance program of federal supplemental benefits providing at least 65 weeks of benefits for long-term unemployed workers. Pending action on such a program, the Federal Supplemental Compensation program which expires this March should be extended. In addition, Congress should enact special legislation to provide unemployed workers with health care protection and mortgage and rental relief.
- To meet the special problems of workers and communities affected by plant closures, Congress should enact plant closing legislation. Advance notice will help workers plan for alternative means of dealing with the threat, and appropriate compensation would cushion the impact.
- To prepare people for jobs, Congress and the Administration should: retain national job-training programs; provide training opportunities for displaced workers and young people in the existing Job Corps centers and in a new youth employment program; develop human resources and raise productivity through more and better education, training, retraining and

upward-mobility programs for all workers, both employed and unemployed.

- To improve job opportunities, anti-discrimination protections should be strengthened and enforced to help women, black, Hispanic and other workers. Child-care opportunities for working parents should be expanded. Sanctions against the hiring of undocumented workers should be enacted and enforced. Wage-hour legislation should be improved and strengthened.
- To rebuild the nation's crumbling highways, bridges, water and sewage systems and other public facilities, federal, state and local governments must each do their share. The longer restoration is delayed, the higher the costs will be.
- To ensure a diversified economic base, Congress must adopt an effective industrial policy with labor and business participation. Only through such a program can the nation's basic industries be revitalized to meet international competition.
- To meet the nation's continued housing needs, Congress should reauthorize and expand the program that the Reagan Administration has devastated.
- To control health costs, effective cost-containment measures must be taken, as outlined in our statement on Health Care Cost Containment.
- To protect consumers, workers, the general public and the environment from unfair and dangerous consequences of unbridled "free-market" business practices, Congress must block the Administration's continuing efforts on behalf of big business to dismantle or weaken federal laws, agencies and regulations. Political appointees and the Office of

Management and Budget are undermining basic protective programs ranging from consumer product safety to worker protections under the National Labor Relations Act.

- To help farmers in their current financial crisis, special farm credits must be advanced quickly and longer-term programs developed to prevent destruction of the family farm.
- To encourage economic growth, the Federal Reserve Board should strive to lower interest rates rather than single-mindedly targeting the rate of growth of the money supply.

The AFL-CIO pledges its continuing support for policies and programs that will improve the health and diversity of the American economy and assure job opportunities and a rising standard of living for all Americans. We call for action on this wide range of concerns.

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Background

BACKGROUND

on

The Job Deficit

Despite the improvement in economic growth and new job creation since the December 1982 low point of the Reagan recession, unemployment is still high. At 7.4 percent, unemployment is worse than at the trough of some postwar recessions and far worse than during previous expansion periods.

Employment went up from 99 million in December 1982 to 103 million in December 1983 and then to 106 million in January 1985. But this job growth has come primarily in lower-paid, service-producing industries. Since 1979, there has been a net loss of 1 million jobs in higher-paid, goods-producing industries -- with most of that loss in durable-goods manufacturing.

Also, 2.7 million jobs were lost during the Reagan recession from July 1981 to December 1982, so the 7 million increase from December 1982 to December 1984 really produced only a net gain of 4.3 million jobs.

In fact, the goods-producing sector had a net loss of 441,000 jobs from July 1981, the beginning of the Reagan recession, to December 1984. This loss reflected 545,000 jobs lost in manufacturing, mainly in durable goods, and 157,000 jobs lost in mining, while 261,000 jobs were gained in construction. New jobs in service industries give little help to older workers laid off from mining and manufacturing.

Official unemployment went down from a high of 12 million in December 1982 to 9.2 million a year later and to 8.2 million in December 1984. The official unemployment rate dropped from a high of 10.7 percent in November and December 1982 to 8.1 percent in December 1983 and then levelled off at 7.2 percent at the end of 1984. But in January 1985, unemployment went up again by 293,000 to 7.4 percent, with an official total of 8.5 million American workers without jobs.

Unemployment is still higher than the 5.8 percent it was in 1979 before the 1980 recession and the 1981-82 recession. Only about one-third of unemployed workers are receiving unemployment compensation. In addition to the 8.5 million workers officially unemployed, another 1.3 million discouraged workers have stopped looking for jobs that don't exist and 5.6 million workers on part-time schedules want full-time jobs and full-time paychecks. Thus, more than 15 million workers are suffering from lost jobs and lost earnings.

Inflation as measured by the Consumer Price Index rose 3.9 percent in 1982, down sharply from the 8.9 percent rate in 1981. In 1983, the CPI was up 3.8 percent. And for the 12 months ending December 1984, the CPI was up another 4 percent.

Poverty is still widespread in America. A 1984 Census Bureau report indicates 35.3 million American are living in poverty. This is 15.2 percent of the population -- more than one out of every seven Americans. Much of this poverty is related to unemployment and low earnings.

The overvalued dollar has encouraged imports, discouraged exports, destroyed jobs, and pushed the nation's trade deficit to a record $123 billion. The huge U.S. trade deficit reflects a trade disadvantage which means workers and communities suffer lost jobs, lower incomes and industrial shutdowns.

The financing of huge Reagan budget deficits is putting upward pressure on interest rates contributing to the curtailment of jobs. Home mortgage rates are still more than 12 percent. High grade corporate bonds are paying about 12 percent. These and other high interest costs are slowing recovery and raising the dangers of a second Reagan recession and renewed inflation.

Unemployment

The U.S. unemployment rate has not improved since June 1984. The January 1985 unemployment rate of 7.4 percent is very high by historic standards and far above the 4 percent unemployment target of the Humphrey-Hawkins Full Employment and Balanced Economic Growth Act of 1978.

In 1983, there were 23.8 million workers who experienced unemployment during the year. And during 1984, about 22 million workers were unemployed.

Unemployment affects all groups to varying degrees, but remains a particularly serious problem for black and Hispanic workers. In January 1985, unemployment rates were as follows:

White adult males	5.5	percent
White adult females	5.9	
White teenagers	15.8	
Black adult males	12.7	
Black adult females	12.8	
Black teenagers	38.5	
Hispanics (sub-groups not available)	10.6	

States with high unemployment in December 1984 were led by West Virginia at 15.6 percent, Alabama 11.7 percent, Mississippi 11 percent, Michigan 10.6 percent, and Louisiana 10.4 percent. Many other states have serious problems which often do not show up in the statewide unemployment averages. For example, the California unemployment rate is 6.9 percent, but Modesto has had unemployment rates over 15 percent, and Salinas, Stockton and Fresno have rates over 11 percent.

Plant closings and major layoffs continue to displace thousands of workers and to hit local communities with high unemployment. A recent Bureau of Labor Statistics study found that 40 percent of the 5.1 million workers permanently displaced from their jobs from 1979 through 1983 were still unemployed as of January 1984. Of the 3.1 million who found jobs, nearly half were earning less than in their former jobs. Two-thirds of those with lower earnings had taken pay cuts of 20 percent or more.

About half of the 5.1 million displaced workers lost their jobs because of a company or plant closing. The older the displaced worker, the less likely the worker was to be re-employed.

The reasons for high local community unemployment vary. Some communities are hit by mass layoffs and plant closings. Other are in areas of long-term structural distress. Adverse effects from trade, inner-city deterioration, farm economy troubles, and remote mining communities are among localized crisis areas. Private charities in these areas are overwhelmed and cannot meet human needs. In these areas of high unemployment, workers and their families are particularly injured by federal budget cutbacks and restrictions in unemployment insurance, welfare, food stamps, health and housing.

The Reagan Administration is trying to kill a $5 million Bureau of Labor Statistics reporting program approved by Congress in the fiscal 1985 budget to identify mass layoffs and plant closings which have drastic unemployment effects in local communities.

Unemployment Insurance

In 1984, a monthly average of 8,523,000 workers were counted as unemployed. Of that number, only an average of 2,909,000 received unemployment insurance of any kind. In other words, benefits were received by only about one-third of those the government "officially" counted as jobless and by none of the discouraged workers. In February 1975, during the worst previous recession since World War II, 76 percent of the unemployed were receiving benefits.

Since all unemployment insurance benefits beyond regular benefits established by individual states are "triggered" by the insured unemployment rate, millions of the long-term jobless are going without assistance. While the total unemployment rate is

7.4 percent, the insured unemployment rate is only 2.9 pecent -- a gap of 4.5 percent. For many states, the gap between total unemployment and insured unemployment is even greater than the national average.

Despite the continuing levels of high unemployment, benefits for the long-term jobless under the current Extended Benefit/Federal Supplemental Compensation (EB/FSC) system are clearly inadequate.

Of the 1,357,000 people out of work for 27 weeks or more in January 1985, only 335,400 were receiving benefits under either EB or FSC. More than 75 percent of the long-term unemployed are without unemployment insurance benefits of any kind. Puerto Rico and Alaska are the only jurisdictions that qualify for up to 13 weeks of additional benefits under the permanent EB program. In the lastest month for which there are available statistics, November 1984, there were 19 jurisdictions experiencing unemployment greater than the national rate, and 6 of them had jobless rates over 10 percent. Yet in November, the only long-term unemployed eligible for extended benefits under the trigger were in Puerto Rico. In every case, the gap between the total unemployment rate and insured unemployment rate exceeded 5 percent.

Gap Between Total and Insured Unemployment Rates
By State, November 1984

State	TUR	IUR	GAP
Alabama	11.0	3.1	7.9
Alaska	10.5	4.5	6.0
Arkansas	8.6	3.0	5.6
District of Columbia	8.3	2.2	6.1
Illinois	8.1	2.5	5.6
Indiana	7.6	2.1	5.5
Kentucky	8.9	2.5	6.4
Louisiana	9.7	3.4	6.3
Michigan	10.7	2.8	7.9
Mississippi	11.0	3.2	6.8
Nevada	8.1	2.5	5.6
New Mexico	7.5	2.5	5.0
Ohio	8.9	2.4	6.5
Oregon	8.9	3.4	5.5
Pennsylvania	8.1	3.5	4.6
Puerto Rico	19.3	6.7	12.6
Tennessee	8.2	2.1	6.1
Washington	8.7	3.6	5.1
West Virginia	15.6	4.2	11.4

Federal Supplemental Compensation is currently being paid to the long-term unemployed in every state. Depending on the state's insured unemployment rate, FSC benefits can provide from 8 to 14 additional weeks of compensation after the expiration of regular and EB benefits. Unless Congress acts to extend the program, FSC will expire on March 31, 1985 -- subjecting hundreds of thousands more of the long-term unemployed to additional burdens and deprivation.

Other federal actions over the past several years, particularly interest rates being charged to states forced to borrow from the Federal Trust Fund to deal with continuing high unemployment, have caused many jurisdictions to tighten eligibility rules, shorten duration of payments, and reduce the amount of those payments. Not only are fewer of the unemployed receiving benefits; those benefits are shorter in duration and far less adequate to meet basic needs than ever before.

The National Commission on Unemployment Compensation in 1980 recommended that the individual weekly benefit amount should not be less than 50 percent of average earnings based on full-time employment, and that the maximum benefit should be at least two-thirds of the state average weekly wage. In fiscal year 1984, the average weekly benefit amount in the United States was $119, or just 35 percent of the average weekly wage in covered employment. Not a single state has met the commission's recommendation.

The problem of providing benefits for the long-term jobless is frequently accompanied by the now chronic problem of state and federal trust fund indebtedness. These problems become particularly acute during periods of recession and high unemployment.

Health Care for the Unemployed

The United States is the only industrialized country besides South Africa that denies access to health care to workers and their families when the workers are unemployed. In most states, Medicaid asset tests are so restrictive that jobless workers must sell their cars and most of their personal belongings to qualify. As a result, few unemployed families can resort to Medicaid as an option. Last year, the House passed a bill providing limited health care protection for jobless workers and their families, but the Reagan Administration opposed the bill and the Senate refused to pass it. With 8.5 million workers still jobless, there is a continuing need for such a program.

Mortgage and Rental Relief for the Unemployed

The latest report on home mortgage delinquencies and foreclosures shows a record high of 5.86 percent of home mortgages on which one or more payments were delinquent. The previous record delinquency rate had been 5.84 percent in the first quarter of 1983, in the wake of the recession. At that time, the number of mortgages in process of foreclosure was 65,320; in the third quarter of 1984, the number in foreclosure was 62,560 and rising.

In May 1983, the House of Representatives passed a mortgage relief payment bill to provide $760 million in emergency loans to unemployed homeowners in danger of losing their homes. Similar legislation failed to pass the Senate. A bill that includes provisions similar to those passed by the House in 1983 is still needed. There are a total of 15 million people either wholly unemployed, too discouraged to continue seeking work, or working part-time due to economic causes. Furthermore, in many two-earner families, the unemployment of one leaves income inadequate to meet mortgage payments.

The needed legislation should also provide for comparable loans to help unemployed renters meet their housing expenses. Many long-term unemployed are former renters who are among the hundreds of thousands of homeless people. The difficulty faced by families of limited income in finding rental housing is demonstrated by the fact that a significant proportion of lower-income renters with federal housing assistance certificates have been unable to find suitable shelter. Numbers of doubled-up families have also increased in recent years, and overnight shelters cannot accommodate all who seek their help.

Housing

Housing starts were up 2.4 percent in 1984 to a 1.75 million total. This was an improvement, but it was still far below the rate of housing starts needed to assure adequate, affordable housing for low- and middle-income American families. Over the year, quarterly housing starts were on a downward trend which reflected continuing high mortgage interest rates. The effective conventional home mortgage interest rate rose from 12.2 percent in the first quarter of 1984 to 12.9 percent in the second quarter. The

Reagan Administration is calling for major cuts in the nation's housing and rental assistance programs.

New home prices and rents have been rising so rapidly that a great majority of families in need of housing simply cannot afford to buy a home. Increasing unmet housing demands are reflected in hundreds of thousands of families on waiting lists for assisted rental housing and in a rise to 2.7 million in the number of families living doubled-up. In the face of such needs, the Reagan Administration proposes a two-year moratorium on budget authority for additional assisted housing.

H.R. 1, the Housing Act of 1985, would authorize funds for additional assisted low-rent public housing, housing for the elderly and handicapped, rural housing, and a new assisted homeownership program for families of up to median income. The number of housing units that would be provided for people of limited income would be small relative to the need but would offer relief to some and hope to others. It would certainly be a great improvement over the moratorium proposed by the Reagan Administration.

Interest Rates

The sensitivity of the economy to interest rates was illustrated in 1984. A rise of about 1½ percentage points in various key interest rates in the first half was followed by a marked slowdown in economic growth in the third quarter. The Federal Reserve reversed policy in the fourth quarter to bring about some decline in interest rates. The economy then experienced a pick-up in economic growth except for housing, which needs lower real interest rates to overcome the existing affordability gap. Lower real interest rates are also needed by indebted farmers for their survival.

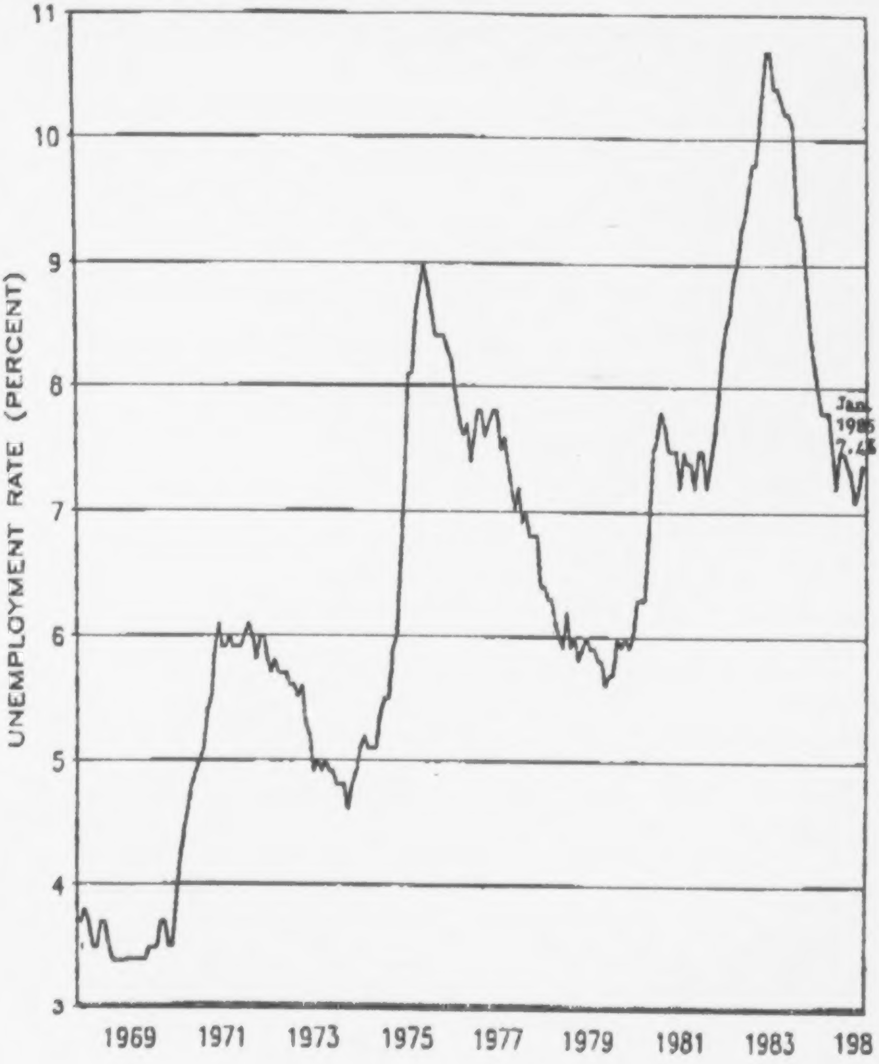
Today, the nominal 10½ percent prime rate is considerably lower than it was in 1980 and the 12.5 percent mortgage interest rate is about the same as it was then. However, those rates are much higher than they were in 1980 in real terms -- or in terms of the relation between interest and inflation rates.

In 1980, the prime rate was about one percentage point lower than the inflation rate and the mortgage rate was a fraction of 1 percent lower. In essence, the real rate of interest was about zero, as the rate of inflation offset the interest cost and made it relatively easy for businesses and households to repay debts. Today, the prime rate is about 6½ percentage points above the inflation rate and the mortgage rate about 8½ percentage points higher. These historically high real interest rates make it hard to repay debts and lead to high rates of business failures and foreclosures on homes and farms.

High interest rates are also hitting farm families with tragic effects. Thousands of farm families are being driven off their land as banks foreclose on overdue farm loans, while the Reagan Administration is calling for an end to basic farm programs.

Other critical aspects of the still too high interest rate levels surface in the international economic arena. As foreigners seek high rate investments in high-return, dollar-denominated securities, the foreign exchange value of the dollar keeps climbing to record highs -- and so does the U.S. trade deficit which in turn destroys U.S. jobs by the millions. Furthermore, foreign countries are making retaliatory increases in their interest rates to stem capital outflows, which can develop into an international rate war to hold capital. Such a development, furthermore, would devastate the developing countries with floating rate loans that are just beginning to recover from deep recession.

Unemployment Rate 1968-85



Source: Bureau of Labor Statistics

Unemployment by State and Region

December 1984

	% Unemployment
Northeast	
Maine	5.7
New Hampshire	4.1
Vermont	4.3
Massachusetts	3.9
Rhode Island	4.5
Connecticut	4.7
New York	6.5
New Jersey	5.4
Pennsylvania	7.3
South	
Delaware	5.9
Maryland	5.3
District of Columbia	8.1
Virginia	5.1
West Virginia	15.6
North Carolina	7.2
South Carolina	7.3
Georgia	5.6
Florida	6.1
Kentucky	9.1
Tennessee	8.2
Alabama	11.7
Mississippi	11.0
Arkansas	8.6
Louisiana	10.4
Oklahoma	7.1
Texas	5.6
Puerto Rico	19.4

	% Unemployment
North Central	
Ohio	9.2
Indiana	8.7
Illinois	8.6
Michigan	10.6
Wisconsin	7.2
Minnesota	6.8
Iowa	7.1
Missouri	6.7
North Dakota	6.2
South Dakota	4.7
Nebraska	5.0
Kansas	5.5
West	
Montana	7.0
Idaho	7.3
Wyoming	6.4
Colorado	5.9
New Mexico	7.4
Arizona	4.4
Utah	6.3
Nevada	8.7
Washington	9.4
Oregon	9.4
California	6.9
Alaska	9.9
Hawaii	5.4

Source: Bureau of Labor Statistics (preliminary, unadjusted)

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TESTIMONY OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY DR. FRANK PARENTE

Mr. CANTOR. I am pleased to have this opportunity to reaffirm the AFL-CIO's support for H.R. 10 which would continue the Federal Government's area and regional economic development programs.

With me today is Dr. Frank Parente, who specializes in a lot of the matters that are before this committee.

Mr. NOWAK. Dr. Parente is with the national organization here in Washington?

Mr. CANTOR. Yes, sir; he's an associate of mine. In February, the executive council voiced its strong opposition to the administration's relentless squeezing of Federal Domestic Programs. The Administration's attempt to end the programs of the EDA was specifically opposed and the executive council spelled out a comprehensive set of programs to deal with the Nation's job and social program needs.

The programs that this bill would continue were originally put in place in recognition of the fact that many areas do not participate fully when the economy generally is growing and prosperous and during recessions some areas suffer much more severely from economic dislocation, distress, high unemployment, under unemployment and out migration. It was also recognized that the existence of regional economic problems adversely affected the Nation's overall ability to grow and reach full employment goals.

These factors are as true today as they were when Congress first acted in the early 1960's to blunt some of these regional disparities through the Area Redevelopment Act of 1962, the Appalachian Regional Development Act, and Public Works Economic Development Act of 1965.

Despite over 2 years of economic recovery, overall unemployment at 7.3 percent of the labor force is far too high and much higher rates of joblessness and severe economic problems affect many areas and groups.

In February, there were 8.4 million Americans officially unemployed. In addition to this, 5.3 million people worked part time because full-time work was not available. Another 1.3 million people were too discouraged to seek jobs which were not there. Thus, the official unemployment rate of 7.3 percent adds up to 15 million Americans directly affected.

A closer look at the data clearly shows that economic recovery continues to exclude many groups and regions. For example, while the overall jobless rate is 7.3 percent, the rate is much higher for Hispanics, blacks, and teenagers. In the construction industry, the jobless rate is 13.4 percent and there are almost 800,000 unemployed construction workers. Moreover, many cities and whole States are being left behind. In January, the BLS found that 41, or 18 percent, out of the 224 metropolitan areas in its nationwide survey had jobless rates above 10 percent. The latest Labor Department surveys show that eight States had jobless rates above 10 percent.

In addition to the disparate nature of the present economic recovery there is widespread concern for the recovery's strength and duration. There are many unknowns and many factors that seriously threaten the future course of the economy and the indications of weakness and instability are growing. There are the huge, unprecedented budget deficits, the extraordinary trade imbalances, continued high real interest rates, as well as the effects of the overvalued dollar, and the willingness of foreigners to continue to invest in the United States and the ability of this Nation to sustain and expand domestic production and jobs.

These factors certainly argue in favor of continuing and strengthening programs that have proven records as effective tools to help stimulate economic growth and stability.

We also believe that the Nation's festering infrastructure problems must be met.

Today, one of the most pressing problems facing States and cities is the need to rebuild and repair a huge part of their public capital, the infrastructure problem. It has become well known that we have serious deficiencies in our highways, bridges, rail systems, urban transit systems, ports, inland waterways, dams, urban water systems, and waste treatment systems. There is no consensus on the dollar needs, but there is no denying that the dimensions of the problem are huge.

For these reasons, Mr. Chairman, the AFL-CIO believes these programs are necessary. They've worked in the past, they are needed now and they represent an adaptable framework for helping to solve many of the problems that will inevitably surface as this Nation copes with problems of economic dislocation and deteriorating public facilities. We are pleased to support the bill.

Mr. NOWAK. I wonder if we could just talk a little bit about a couple of the broad needs facing our Nation. I wonder if the AFL has tried to analyze the current unemployment situation?

Mr. CANTOR. I really think that we have experienced 2 years of high rates of growth. It's led to a diminution of employment and brought it down to levels now. We hear constant references to something called the natural rate of unemployment that is going up. We hear rationalizations of all kinds about the labor force, also. I think it is a very worrisome thing and I think it's even more worrisome when we try to dismiss it and look the other way.

Mr. NOWAK. Thank you, Mr. Cantor.

I would like to thank each of you for being here today, and if there's no further business, the hearing is adjourned.

[Whereupon, at 2:45 p.m., the subcommittee adjourned to reconvene at the call of the Chair.]

ADDITIONS TO THE RECORD

JOHN BREAUX
7th District, Louisiana

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(202) 225-2031

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921 Moss Street, Room 2530
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Lafayette, LA 70501-6988
(318) 264-6857

Congress of the United States
House of Representatives
Washington, DC 20515

Committees:
Public Works and Transportation
Merchant Marine and Fisheries
Chairman
Fish and Wildlife Subcommittee

C. Wayne Smith
Administrative Assistant

April 12, 1985

Honorable Henry Nowak
Chairman
Subcommittee on Economic
  Development
2240 Rayburn Building
Washington, D.C. 20515

Dear Henry irman:

I am enclosing to you a copy of a resolution from the Kisatchie-Delta Regional Planning and Development District, Inc. expressing support for continuation of the Economic Development Administration. The District also notes this particular program has benefitted the area which it serves.

I would appreciate any information that you might have regarding the continued operation of EDA which I could provide to the District.

Thank you for your attention and assistance.

Sincerely,

John

JOHN BREAUX
MEMBER OF CONGRESS

JB:jeb

Enclosure

RESOLUTION IN SUPPORT OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

WHEREAS, the Kisatchie-Delta Regional Planning & Development District, Inc. has been regularly assisted in its economic and industrial development efforts by the Economic Development Administration and its local district office; and

WHEREAS, the Economic Development Administration has regularly assisted in financing and technical assistance in the development and creation of jobs for our eight parish area citizenry; and

WHEREAS, the excessive costs for development and other improvements in connection with economic and industrial development cannot be borne by local government alone; and

WHEREAS, this body affirms the need at the national level to cut expenditures and balance the federal budget through reduction in programs which are not effective and not efficient; and

WHEREAS, it is the position of this body that the contributions of the Economic Development Administration warrant scrutiny prior to the complete elimination of EDA;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Kisatchie-Delta Regional Planning & Development District, Inc. that it formally requests the Senators and Congressional Delegation to carefully consider the consequences of removing the Economic Development Administration

Program, which has traditionally returned more tax dollars to Washington than those dollars expended for local projects and has provided the necessary public works improvements in connection with providing the base of growth and development in the eight parish region;

FURTHER, BE IT RESOLVED that the Board of Directors for the Kisatchie-Delta Regional Planning & Development District, Inc. is in full support of the continuation of the Economic Development Administration and is against any rescission of the funds currently allocated for EDA.

Alexandria, Louisiana, this the 21st day of March, 1985.

Brian Duke
BRIAN DUKE, PRESIDENT

Charles J Cooper
CHARLES J. COOPER, SEC./TREASURER

STATE OF NEW YORK
DEPARTMENT OF STATE
ALBANY N.Y. 12231

GAIL S. SHAFFER
SECRETARY OF STATE

March 27, 1985

Honorable Henry J. Nowak
Chairman, Subcommittee on
Economic Development
U. S. House of Representatives
Committee on Public Works
and Transportation
Room 2615 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Nowak:

I am enclosing a statement for the record on H.R.10 and particularly its Title II (Appalachian Regional Development Act Amendments of 1985). I regret my schedule does not permit me to personally present this to the Subcommittee but I wish to have my indication of support for this crucial Program included in the deliberations in the House of Representatives.

The attached statement notes the State of New York's firm support for this legislation, which would reauthorize the Appalachian Regional Commission and its programs. The Appalachian Program has been a vital component of State and local efforts to create the necessary physical and social infrastructure for economic development and readjustment in the fourteen Southern Tier Counties of Appalachian New York.

I appreciate your continued support of this legislation. If I can provide any additional information on the Appalachian Program in New York State, please let me know.

Sincerely,

Gail

Gail S. Shaffer

GSS/ec
Enc.

TESTIMONY ON H.R. 10, TITLE II

(APPALACHIAN REGIONAL DEVELOPMENT ACT AMENDMENTS OF 1985)

Presented to the U. S. House of Representatives,
Committee on Public Works and Transportation,
Subcommittee on Economic Development

Gail S. Shaffer
Secretary of State
State of New York

March 1985

The State of New York firmly supports H.R. 10, Title II of which would amend the Appalachian Regional Development Act of 1965. This legislation would reauthorize the Appalachian Regional Commission and its programs, thereby assisting in the orderly implementation and completion of the Finish-Up Program approved by the thirteen Appalachian State Governors in their report to the President dated December 31, 1981.

The programs of the ARC have contributed significantly to the economic and social development of the fourteen Southern Tier counties of Appalachian New York. This region, which has a land area of 11,710 square miles and a population of 1,083,241 and stretches over 300 miles from the hills of Schoharie County in the East to the Lake Erie shore in the West, has historically lagged behind other New York State regions in economic development.

In the State of New York, the Appalachian Program has provided essential investments in economic infrastructure and in human resources, investments which have leveraged substantial amounts of private and other public resources to foster regional economic development. The unique Appalachian program delivery system, based on a Federal-State-local partnership, has been a creative and successful administrative mechanism for identifying and funding worthy projects and programs beneficial to the region as a whole and to many of its 397 discrete units of local government.

Since 1966 over $360 million in Appalachian Regional Commission resources have been spent on necessary physical and social infrastructure for economic development in Appalachian New York. Of this amount, about $260 million has been invested in the Appalachian Development Highway known as the Southern Tier Expressway (Corridor T). The completion of this investment will be discussed in greater detail below.

Over $100 million has been invested in non-highway programs providing the preconditions in physical infrastructure, enterprise development, job-training, and health and child development for successful economic adaptation and redevelopment.

ARC programs have supported the development of Appalachian New York's physical infrastructure through assistance for industrial park development, water and sewer lines, industrial access roads, and rural transportation efforts. The growth of public-private partnerships has been fostered through the project selection process and enterprise development efforts. Further, very important multi-county economic planning efforts by the Local Development Districts have been encouraged by ARC to promote regional adjustment to a changing economy.
Commission programs are structured in such a way as to accommodate the necessary flexibility in economic planning and response.

A good example of this capacity for flexible adaptation was the response through Commission programs to the energy crisis which reverberated through the economy in the 1970s. The Commission encouraged and funded a variety of initiatives to this challenge to the regional economy. Through the capitalization of revolving loan funds earmarked for energy improvements, many local businesses and industries have upgraded and modernized their energy systems, enabling them to survive in the short run and reestablish their competitiveness in the marketplace through increased operating efficiencies. The loan funds have leveraged substantial private sector funding commitments helping to buttress the economic base of Appalachian New York.

The numerous ARC-supported job-training projects have assisted rural educational agencies to respond more effectively to the training needs of business and industry and have helped unemployed, underemployed, and dislocated workers to become more productive members of their communities. In particular, ARC resources have enabled the Boards of Cooperative Educational Services and Community Colleges in Appalachian New York to develop training programs utilizing up-to-date equipment and technology. This has provided crucial support to regional economic development and illustrates the importance of human resources development to overall economic development.

Health and child development projects initiated with Appalachian monies have become an integral part of the social infrastructure of Appalachian New York. Primary health care facilities have been constructed in the most rural areas of the region, specialized services to families with young children have been provided, and day care projects to meet the needs of the region's employers are in place today because of ARC. Though the Finish-Up program now sharply limits projects in social infrastructure, it is clear that eligible industrial day care projects are increasingly necessary in an era of high female labor force participation and that ARC resources provide the necessary catalytic action for these projects.

As mentioned, about $260 million in Appalachian resources have been invested toward the completion of the 246 mile Southern Tier Expressway (Corridor T) as an element of the Appalachian Development Highway System. When matched with State funds and other Federal assistance, over $750 million has been invested in Corridor T to date. It should be noted that this investment was made in the expectation that the Federal commitment to complete the Appalachian Development Highway System including Corridor T was unequivocal and secure.

When the security of this commitment was questioned in 1981, the thirteen Appalachian State Governors developed a Finish-Up proposal which would not complete the planned system in its entirety, but would at least permit the State to finish those Development Highways, such as Corridor T, which has been started. To do less would leave uncompleted gaps in these Highways which would severely reduce the utility of the work accomplished to date and devalue the substantial Federal investment already made. What has happened is that the Development Highway program has limped along from year to year on unpredictable continuing resolutions or annual appropriations. Under such conditions, of course, it is impossible to plan rationally for the completion of this major capital program.

When completed, Corridor T between Binghamton and Erie, Pennsylvania will link the fourteen Southern Tier counties of Appalachian New York to suppliers and markets within and outside the region. This link is badly needed to bolster the economic development of this historically lagging region.

Over 200 miles of Corridor T have been completed to standards equal to an Interstate highway. Eight miles of the Highway near Salamanca are presently under construction and will open to traffic in 1986. However, there is a a seven mile gap adjacent to the section under construction, east of Route 219 in Cattaraugus County, and a five mile gap through Corning for which financing is not yet assured.

The cost of completing the entire highway to the desired standard is over $200 million. Under the present uncertainties of continued long-range funding from the Appalachian Regional Commission, it is doubtful whether the highway can ever be completed as planned. However, at least $125 million in additional ARC funds are required to complete the last remaining gaps in New York State and provide the Southern Tier with the long-promised and needed continuous useable facility stretching from the Pennsylvania border to Binghamton. Additional funds will also be needed by Pennsylvania to complete the short segment linking the highway in New York to its terminous at Interstate Route 90 near Erie.

Title II of H.R.10 would authorize a multi-year Finish-Up program for Development Highways and access roads. Taking into account the probable reductions to annual appropriations which will be made by the Appropriations Committees, the amount which would be made available to New York is considerably less than the amount needed to complete the Highway to desired standards. However, it would come very close to meeting our minimum needs to complete the existing gaps in the Highway.

Under existing Appalachian Regional Commission legislation, the States have an option to pre-finance approved Development Highway projects with non-Federal funds if regular ARC apportionments are not available. Upon receipt of adequate ARC apportionments at some later date, a State has the option of "converting" the project or paying back the funds which were borrowed for advance construction.

As of January 4, 1985, eight States had advanced $147.9 million for construction of eligible sections of Development Highways, anticipating that these advances would be paid back as ARC funds become available. With the abrupt termination of the Program, as proposed by the Administration, there would be no opportunity for these States to recoup this funding. At a minimum, we would suggest that sufficient funds be authorized at least to reimburse the States which tried to accelerate the completion of the Development Highway Program by providing interest-free State funds in lieu of funding which could not be provided by the Appalachian Regional Commission.

In conclusion, we wish to emphasize that the Appalachian Program has been a vital component of economic development strategies in Appalachian New York. The relatively modest ARC investments have served to bolster local efforts to create the necessary physical and social infrastructure for economic readjustment and development which have materially improved the quality of life in our fourteen Appalachian counties. We strongly support H.R.10 and particularly Title II thereof (Appalachian Regional Development Act Amendments of 1985) because the reauthorization and continuation of the Appalachian Program is essential for this region to meet the challenges of a changing domestic and world economy.

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